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LEVEL 1 - 1 OF 166 STORIES

The New Republic

MARCH 8, 1999

SECTION: Pg. 16

LENGTH: 1327 words

HEADLINE: THE DAY AFTER

BYLINE: Dana Milbank

HIGHLIGHT:
White House Watch

BODY:

A few hours after the Senate acquitted President Clinton last Friday, Paul Begala celebrated by taking his young sons to the rodeo. The weary presidential counselor had come for some relaxation; instead, he found allegory. The rodeo announcer declared that a fellow named J.W. Hart would be riding that night--for the first time since a nasty spill last year earned him 80 stitches and 30 staples in his head. Good ol' J.W., the announcer said, had to pull out some of the staples that night just to put on his ten-gallon hat. "For me, it was a fitting metaphor," Begala says. "You get sutured up and climb back on. My heart went out to him: there he was, back on that bull."

The White House staff, too, was back on its prescandal bull this week. After a three-day weekend and a presidential jaunt to Mexico, the senior staff meeting Tuesday was almost boring in its efficiency. Counsel Charles Ruff, after months in the spotlight, delivered a one-word report: "Nothing." Press Secretary Joe Lockhart stepped up the push for a first-in-ages Clinton press conference amid signs the president might actually do it. The White House drug office, of all things, delivered the longest report of the morning, and representatives of the bureaucracy's alphabet soup--OMB, CEQ, DPC, NEC, NSC--basked in their sudden return to relevance.

"All these people who had been on page twentyone for the last year are now on page one," says one top Clinton aide. The White House plans a profusion of Social Security and USA Account events, plus new attention for Kosovo, Iraq, and even Ghana. One long-neglected national security adviser remarked excitedly to his colleagues: "Sixty-four foreign policy stories today in The New York Times! It's like the old days!"

As for the scandalmen, it's more like nap time. "I was thinking of having a 'will spin for food' sign made up," says Jim Kennedy, the scandal spokesman. "It's amazing: my pager didn't go off once on Sunday." Kennedy, who, like most staffers, took President's Day off, will spend the next few days cleaning off his desk.

Things are much the same for the White House press corps, which, after a year of wishing away the scandal, seems to have more of a sense of dread than relief. There was an eerie calm in Washington the Day the Scandal Died. Nobody was staking out the Mayflower. Not a camera was posted outside Monica's lawyers' offices. At the White House's Northwest Gate, where Monica threw her now-infamous jealous fit upon learning from the Secret Service that her man was in the Oval Office with another gal, all was quiet. Inside the briefing room, bored photographers were watching a TV talk show titled "My Daughter Dresses Too Revealing." Out on the lawn, television correspondents were applying makeup, getting ready to tell the world what it already knew: Clinton was off the hook. The only disturbance was a stiff breeze, which disrupted the correspondents' equipment--and hairdos. A few minutes before the vote, a windswept Sam Donaldson stormed into the briefing room, shouting " Jesus Christ!" A woman laughed. "Hold that toupee," she said after he passed.

There were occasional bursts of jubilation as the afternoon progressed, first with the Senate acquittal and then with the Clinton acceptance speech. " He's free! Free Willy!" a gentlelady of the press exclaimed. But despite the professions of relief, reporters quietly confided to each other a different sentiment--boredom. "Who are we going to throw out now?" one asked. "It doesn't feel very historical, does it?" mused another. "Now what are we going to write about?" a reporter for a big daily asked. "That," somebody responded, "is what I'm afraid of."

Me, too. How are we going to fill our pages without the scandal? Are we now to turn to the much-neglected stories of the past year? Will we finally learn the details of the education policies Monica Lewinsky shared with the president? Will we explore the legal precedents in Ken Starr's defense of Meineke Discount Muffler? The boredom has already set in. Even before the vote, the press was trying to make the roll call into a parlor game, predicting the irrelevant matter of whether there would be 50 votes for either charge. By the Monday following the vote, deflated networks were already returning to JonBenet Ramsey. NBC's Jamie Gangel, who snagged the first Linda Tripp interview, was reduced Tuesday to doing a way-too-long segment on the revival of roller derby.

At the moment, the press is entertaining itself by trying to catch Clinton and his aides in flagrante delicto, gloating. Lockhart felt compelled to declare the White House a "gloat-free zone," and the no-gloat policy was so strictly enforced that the press-office staff showed not so much as a grin when Clinton was acquitted. Lockhart's office curtains were drawn Friday to hide whatever gloating happened inside. Photographers with telephoto lenses found an open window on the second floor of the White House, but the gloaters quickly discovered the espionage and drew the shades. After the acquittal vote, a White House janitor walked out with an empty case of Maker's Mark whiskey--tantalizing evidence that somebody must be gloating somewhere inside the mansion.

Moments later, I was almost knocked over by a stampede of photographers chasing Ruff's wheelchair as he made his way through the gate to the Bombay Club for lunch. A reporter later asked Lockhart whether such a conspicuous departure for lunch was smoking-gun evidence of gloating. "If you think walking out through one gate over another is some sort of signal to someone, you're overthinking," Lockhart said. Looking for gloating in all the wrong places and finding none, journalists had to content themselves with fantasies about behind-the-scenes gloating. "They're probably in there trying to stick rags down his throat," one correspondent said of Clinton after the acquittal. When Lockhart's briefing was delayed, another journalist suspected surreptitious gloating. "Joe can't keep himself from smiling," he said. "They have to wait until he stops. It's a gloat-free zone."

Actually, the only gloating I could detect at the White House was gloating about not gloating. Relieved, they said. Content, yes. Liberated, certainly. But gloating? "No," said Lanny Davis, who proceeded to parse the definition of gloating. "I don't mind saying I feel vindicated," the spinner said. "I intend to constantly remind every Republican member of the House who voted for perjury to call Fred Thompson and Richard Shelby," two GOP senators who voted against the perjury article. But, Lanny, isn't that gloating? "That part of it isn't gloating," Davis said. "It's vindication. It's legitimate."

Clintonites have good reason not to gloat. For one, there's no predicting what Starr might try next. "How many days you think will pass after the impeachment trial before Starr files a sixty-three-count indictment against the president?" one Clinton aide asked. "He's on a mission from God." A number of White House aides, burned out by the scandal, are heading for the door now that it's over. Greg Craig and Lanny Breuer will leave the counsel's office; two other members of the scandal team, Adam Goldberg and Don Goldberg, have already left. Elena Kagan, number two at the Domestic Policy Council, is off to Harvard; even Begala is said to be leaving.

Too many White House aides have been saddled with huge legal bills, have been personally devastated, or are just worn out by scandal management. "I feel as if I've been hit by a truck," says Larry Stein, Clinton's top lobbyist. One senior Clinton aide says he's tired of the "doe-eyed" looks of reporters who profess distaste for scandal and delight now that it's over. " I'm sure it's hard to cover a fire," he says, "but don't dare tell me covering a fire is harder than having the expletive house burning down around you."

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HEADLINE: THE WHITE HOUSE
Press briefing by Bob Rubin, Jack Lew and Gene Sperling

BODY:

Presidential Hall

MR. SPERLING: Welcome. This is our seventh budget briefing in the President's and Vice President's tenure. For six years, President Clinton and Vice President Gore have had a clear fiscal strategy: On one hand, we needed to reduce the public budget deficit so that we could increase savings, lower interest rates, and spur private sector investment. At the same time, we needed to increase our targeted investment in education, health care and research, to increase the productivity of our people. This two-tiered, this twofold investment strategy has clearly worked for the American people.

The Congressional Budget Office projected that the deficit that we would face this year when we came in was $404 billion. Instead we now project a $79 billion surplus. That is a $483 billion difference in the amount of money available to our private markets, to home owners, to people starting businesses. That is the amount of money that is now available for savings, for investment, because of the turnaround in our fiscal policy. Indeed, all of the doubling in national savings, from 3.1 to 6.7 percent since President Clinton has taken office, has been a result of the federal deficit reduction. With this lower interest rate, productive investment is at historic levels and has grown double digits for more than six years in a row.

At the same time, the President's efforts in doubling key education training initiatives, Head Start, we now spend $2.5 billion more per year than when we came in; education technology has gone from $23 million to nearly $800 million in this budget. WIC, the Women and Infant Children program, now serves 1.8 million more people. These are some of the results of a strategy of reducing the deficit, having fiscal discipline, and yet having a focus on investing in the productivity and potential of the American people at the same time.

In the President's State of the Union address, he clearly launched a new national debate on how our country should best allocate surpluses in a period of prosperity. And the President's fundamental message was a clear one: With the budget deficit cured, but a long-term retirement deficit looming, the fiscally and financially responsible way for this nation to deal with this period of surpluses is not to consume them today and turn a blind eye to the retirement challenges of tomorrow, but rather to save and invest them.

At the core of the President's proposal is a debt reduction lock box for Social Security and Medicare, a debt reduction lock box of nearly $3 trillion that will strengthen our economy, increase savings rates and at the same time, improve the solvency of Social Security and Medicare.

The impact of this plan is dramatic, as Jack Lew will go over more. In just six years from now, we will have taken the debt to below where it was when Ronald Reagan took office in 1981, essentially wiping out the increase in our publicly-held debt as a percentage of GDP, and it will fall to 7.1 percent of GDP by 2014, its lowest level since 1917.

We are ready and willing and, in fact, we think it is essential that we work in a bipartisan effort with the Congress to extend the solvency of Social Security for 75 years, and to modernize Medicare, and to make sure that it is not only solvent to 2020, but that it has the market incentives and modernization it needs to work in the next century and to free the resources that can help it be a better program, that can include prescription drugs.

I do want to make the following point, though, to those who have offered more criticisms and constructive suggestions, which is that the President, as an opening start in the dialogue on our surpluses, put forward a plan that was scored by the independent actuaries, Social Security and Medicare

- the same actuaries who have independently scored these through Democratic and Republican administrations for 30 years - and what these show is that Social Security would be solvent to 2055 and Medicare would be solvent to 2020. This is not good enough. We need to work in a bipartisan way to do more - to get Social Security solvent for at least 75 years, and to modernize Medicare and include prescription drugs.

But I do think it would be a worthy challenge of many of the President's critics to at least come forward with an opening proposal that shows how they would get Social Security to at least 2055 and Medicare solvent to at least 2020 - under their principles, under their suggestions - before any of us come forward with proposals for popular spending or tax cut programs for today. I think it would be reasonable for everyone to show how they are going to meet the test of extending the solvency and strength of Medicare and Social Security first. That's an important test, I think, for anyone who wants to have a fiscally responsible plan for the future in this new national debate of how best to allocate surpluses.

Before I turn over to Janet Yellen I do want to comment that there are many, many people who have been part of this budget team. The President created a National Economic Council six years ago to make sure that we functioned as a team, that we all work together, and this is the seventh budget that has been put forward with Jack Lew's leadership, the OBM Director's leadership, but operating and functioning as a team.

Some of the people I would just like mention quickly on the OMB staff who have been critical are Josh Gottbaum, Ed DeSeve, Bob Kyle, L.G. Holstein, Barbara Chow, Dan Mendelson, Michael Deich and Dick Emery. I would also like to mention my counterpart, the Domestic Policy Council Bruce Reed and his deputy, Elena Kagan - their critical role in the development of the tobacco and education and crime proposals, as well as Sally Katzen and Chuck Marr on my own staff. And finally, two people who have been here right from the very start Joe Minarik and Alan Cohen.

There are many, many others at OMB and Treasury and the White House, but I would like to mention - I would like to just mention them and thank them for their excellent work. I am going to be followed by Janet Yellen, our Chair of the Council of Economic Advisors, who will talk about the economic assumptions. Secretary Rubin will follow to talk about our tax initiatives, and then Jack Lew will follow with the overall framework of our budget. Also with me is Sylvia Mathews, who many of you know as the Chief of Staff, former Chief of Staff at Treasury and the former Deputy Chief of Staff in the White House. She is now the number two person, Deputy Director of OMB. And also, all of you know Larry Summers, who will be available for questions as well, who is the Deputy Secretary of Treasury.

With that, I will turn things over to Janet Yellen.

MS. YELLEN: Thank you, Gene.

As Gene indicated, my job is to describe the administration's economic forecast that's contained in the budget that was released today. Before I do that, let me first say that for the past six years, this administration has established a strong reputation for using credible, conservative economic forecasts in its budget projections.

The administration's economic forecasting team was committed to ensuring that our budget balancing efforts would be based on realistic assumptions about the economy's performance and not on rosy scenarios. And I believe that the assumptions in this year's budget are similarly credible and are consistent with the views of the consensus of economic forecasters.

The economy's performance over the past six years has been extraordinary. Our nation is currently enjoying the longest peacetime expansion in American history. Since 1993, almost 18 million new jobs have been created, 2.9 million of them just this past year. Unemployment has been below 5 percent since July of 1997, and inflation stands at its lowest level in three decades. Real wages have grown more over the course of this expansion than in the 1980s.

Although growth over the last several years has exceeded our expectations, we believe that it would not be wise, for budgetary purposes, to count on a continuation of growth at its recent extraordinary pace. Looking ahead, we expect this economic expansion to continue, with new jobs created and real wages continuing to grow. But we're projecting real GDP growth at a slower, 2 percent annual rate over the next three years. At the same time, the unemployment rate is projected to edge up slightly. Inflation, as measured by the Consumer Price Index, is projected to increase at a 2.3 percent annual rate next year, which is about the same as the increase in the core CPI - that's the CPI excluding food and energy - over the past year.

After 2001, real GDP growth is projected to resume its assumed trend growth rate of 2.4 percent, and the unemployment rate is projected to stabilize at 5.3 percent. Our economic projections are very similar to those in our mid-session review last May, and the differences stem largely from integrating the better than expected economic performance during the past year. Our projections are also close to those of private forecasters and those of the Congressional Budget Office.

The shift to more moderate growth in 1999 reflects the view that tight labor markets are apt to constrain growth in the near-term, while several components of domestic demand may be poised to grow at slower rates. Consumption in particular has been growing faster than income and may be likely to slow to a solid, but sustainable pace. But it's important to note that our assumed real growth rates are not the best that this administration believes the economy can achieve. The outcome certainly could be better.

Let me conclude by saying that the U.S. economy remains strong in 1998 despite a serious weakening in the international economy, and the economy's ability to weather these storms is testimony to the soundness of the policies of the past six years and to the underlying strength of the current expansion.

At present, there is no evidence of domestic imbalances that would threaten the outlook for continued growth. I'd like to stop there and turn the podium over to Secretary Rubin, who will focus more on the tax side of the budget.

SECRETARY RUBIN: Thank you, Janet. Let me start with one personal comment, if I may, and then I'll just comment for a moment on taxes. I started, as a number of the people on the podium did - not the podium; I'm the only one at the podium - a number of the people up here did - at the beginning of this administration - during the transition, actually - I don't think any of us could have imagined - I know I could not have imagined - that we would go from the period of the very high deficits of the '80s and the early '90s to the remarkable period we're in right now, with large surpluses, and have already begun the reduction of our debt, with the projections we have in this budget of continued surpluses and a continued reduction of our debt.

Larry Summers and I were talking about this outside. If Larry looked at a foreign economy that had accomplished this in this period of time, and was looking forward to the enormous debt reduction that is projected in this budget, I think he would look at it and say, that is a truly remarkable economic achievement, number one; and number two, that is an economy that really is well-positioned to do well economically in the future.

Having said that, let me say a word about the President's tax proposals. The President has proposed $34 billion in targeted tax cuts, all of which are fully paid for. I believe that you have a document there that describes the specific proposals. Let me just focus on two things, if I may. First, within that $34 billion, there's $11.7 billion of new targeted tax initiatives. These include a $1,000 tax credit to help compensate families for the cost of long-term care either for the taxpayer or for an ailing relative. There is also a $700 tax credit to assist workers with disability, and there's tax relief for a parent who stays at home to take care of a very young child, which is in addition to our child care tax credit that we proposed last year.

Secondly, our budget deals with a very important problem that has developed: the proliferation of corporate tax shelters. Corporate tax shelters are defined as transactions that have, for practical purposes, virtually no pre-tax economic effect, or very little pre-tax economic effect, and that are done overwhelmingly for tax purposes and that don't have particular sanction in the tax code. These kinds of tax shelters violate the intent of Congress; they violate the code; they clearly erode the corporate tax base, and they breed disrespect for the tax law.

We have two sets of proposals. One is generic - that is to say, proposals designed to deter this activity in general - and then secondly, we take a number of known, specific corporate tax shelters, and we act against those. We're going to continue to focus on this at the Treasury Department, and we look forward to working with Congress and their staffs to attack and deal with this very important problem.

The tax proposals, as I've just described them, are a very important part of the President's budget, and I believe it is a budget that is extremely well put together with respect to meeting the economic and social challenges that lie ahead for this country.

With that, let me introduce OMB Director Jack Lew.

MR. LEW: Thank you. I thought I would walk through the structure of the budget which - we will have some pictures here to perhaps help explain it. The President sent a budget to Congress today which is the third consecutive budget that will be in a surplus. This is an accomplishment which I think is underscored by the fact that it's the first time in a half a century that anyone could stand up here and say that. What this budget does is it charts away into the next century for long-term fiscal discipline and investment in our priorities.

We have enormous opportunity with the new surplus. We're going to show you a picture that I think you're all familiar with which we've been using for the last several years. There used to be a lot more red on it. What we've done is worth taking a moment to remark on. We've eliminated $3.1 trillion of deficits since 1980. And the green that you see there were projected deficits where when we started we were looking at $5.5 trillion of deficits from 1993 through 2004. We're now looking at $1 trillion of surpluses. This is an accomplishment that also puts responsibility on us to make the decisions that will keep this kind of economic record going forward in the future.

Fiscal discipline has helped bring about the longest peacetime expansion in many decades. The economy has created 17.7 million new jobs. I think Gene and Secretary Rubin have gone through the many economic statistics that underscore how important the budget is to long-term economic prosperity.

In terms of the tax burden on American families, I think we have to begin by noting that the typical family of four has seen its tax burden go down, not up. If you look at the median family, family of about $45,000 a year, they're paying lower income and payroll taxes than at any time in 23 years. A family at half the median level is actually receiving money back because of the changes in the earned income tax credit and the child care credit. Even a family at twice that level is paying the lowest taxes as a share of income than at any point since 1977.

We've balanced the budget and we're running a surplus because we've controlled federal spending. The budget in the year 2000 will continue the trend that we've followed for the last six years. It will reduce the size of government as a percentage of the economy year after year after year. This year, it will be lower than it was last year as each budget has been lower than the year before it, and lower than in either of the two previous administrations.

Key element in the administration's ability to expand investments while reducing the size of government has been the reinvention of government. We've reduced the size of the federal civilian work force by more than 345,000. We have the smallest federal work force since 1931. We're doing more with less, and we're getting more for the tax dollars the American people send.

Gene's gone through the numbers about what the deficits were projected to be, and at the risk of repetition I'm going to just underscore them, because they really need to be understood. The numbers are too large to say just once. In 1993, we were projecting deficits of $390 billion a year for 1998

- 5 percent of the economy. Instead, we ran a surplus.

By 2003, the projections were for over $600 billion a year, in one year alone - that's that sea of green ink at the bottom. By taking tough action in 1993 and finishing the job in 1997, we've now created the opportunity to chart a path of how we budget with surpluses for the next generation.

This morning, the President used this chart, which I think summarizes the story of this budget better than all of the others. When the President took office six years ago and we were looking at the seas of deficits, the debt, the total amount that the government has borrowed from the public, was doubling from 25 percent to 50 percent as a share of GDP - 1980 to 1992.

The framework that the President set forward will reduce the total size of the government debt to 7 percent, the lowest level since the United States entered World War I. The framework for Social Security reform and long-term fiscal discipline that the President laid out accomplishes this by devoting the lion's share to savings and to setting aside resources for the future. The 62 percent dedicated to Social Security, the 15 percent dedicated to Medicare

- what that's saying is that we're going to set this money aside, we're going to put it in the Social Security trust fund. We're not going to spend it today so that we can have it tomorrow to pay the benefits that are already due.

The two pieces of the President's plan that actually do commit resources are the Universal Savings Accounts, which are a tax incentive for savings to increase the retirement savings that Americans have in the future and an investment in military readiness and other critical investments. We think this is a prudent, balanced package, but it's that green area which is the savings that contributes to the reduction in debt held by the public.

The piece that's in equities doesn't technically reduce the debt held by the public, but it does set aside an asset - corporate equities that will be held by the trust fund so it does increase savings.

There have been a lot of questions about the accounting behind the President's budget, and I think that we need to underscore a very, very basic point. Every dollar that's in the unified budget surplus can only be spent once. It's either going to go to a tax cut or a spending increase; to debt reduction, or to what the President has proposed, which is both debt reduction and setting aside assets for Social Security and Medicare. Tax cut or spending have the same effect - they create future obligations, they add to the public debt, and they don't put another penny into the Social Security trust fund.

I think we've agreed with the economic view that debt reduction has many virtues, with or without the Social Security investment. It reduces the public debt without adding any new obligations, but it, too, doesn't set a penny aside for Social Security or Medicare trust funds. What the President has proposed is to put the money into the trust funds, to reduce the public debt, to not take on any new obligations, and increase the assets that are there for Social Security and Medicare in the future.

We've been struggling to try and boil down to a fairly simple statement why this all works, and I think this picture tells the story, and the President referred to it earlier this morning. When we, in 1993, were projecting interest as a share of the budget, and for the year 2014, the last year of the 15-year period that we're now looking at, we were projecting that interest would be 27 percent of the federal budget - 27 cents out of every dollar was going to go to interest. Under the President's proposal only 2 cents of every dollar will be going to interest. That means that the rest of that money is available and it's available to be paid to the Social Security trust fund, to pay benefits that are already due.

To put this in dollar terms, the projection in 1993 would have had interest costs in 2014 at $1.3 trillion in one year alone - just interest on the national debt. What we're projecting now is $60 billion. That is a tremendous reduction. It's a reduction that means that federal budgets in the future will not be constrained and we won't see productive useful dedication of resources squeezed out by interest costs that are out of control.

The President proposes a legacy of building for the future by saving Social Security and Medicare, encouraging Americans to save for their own future retirement and by setting aside resources for critical investments in national defense and other priorities, including education and the other things we've talked to you about for the last several weeks.

Everything that the President is proposing in his year 2000 budget is paid for. That 11 percent is only triggered in 2001 after we finish Social Security reform. This year's budget picks up where last year's budget left off. Last year the President said, save the surplus until we fix Social security first. This year the President has laid out a framework for fixing Social Security and then proceeding to meet the other challenges that face us as a nation.

That is an overview of the budget. Rather than go into all of the facts and figures, I think we at this point would like to turn it to you to ask questions, and all of us are available to answer questions.

Q Is the 62 percent in reality what the surplus would put to Social Security, what Social Security surpluses would amount to anyway? Is it less or more?

MR. LEW: The Social Security trust fund will continue to keep every penny that is put into it over the course of the next 15 years. We're putting these resources in addition, which will take the trust funds - the increase in the trust fund up to a total of $5.5 trillion. It would have been $2.7 and it will be $5.5, plus about $1 to $2 trillion that would have been there anyway. So we're very substantially increasing the assets in the Social Security trust fund.

Q So you're adding quite a bit -

MR. LEW: Correct.

Q - of general fund surpluses to the Social Security

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MR. LEW: All of the obligations to the trust fund are in the form of treasury specials, except for the portion in equities. When those are redeemed, those would be redeemed with general revenue, as are all obligations to the trust fund.

Q Of the $17 billion projected surplus, how much of that comes from FICA taxes collected?

MR. LEW: Well, in the current fiscal year that we're about to begin work on, fiscal 2000, the on-budget is in a very small deficit to the off-budget, which is the area where FICA taxes are in substantial surplus. So in the first year, the answer is "all." As you proceed through the next 15 years, that ration shifts.

The important thing - and we all have to remember - is that when we get to the year 2012, the payments will start to reverse. The bonds that are in the Social Security trust fund will start to be redeemed, and the important question will be, is there enough of a unified budget surplus, enough of a non-Social

Security surplus to pay those bills.

In 1993 when we came in, there were forecasts of $600-billion deficits and people got scared - how would those bills be paid? By reversing that and by running a surplus for all of this period, we know that the bills can be paid.

Q Well, I'm not very sophisticated about this - "all" is the word you gave, right?

MR. LEW: For the year 2000, but not over the next 15 years.

Q Please help me out and understand how you can put money into a Social Security fund that, in effect, comes from the Social Security fund. I understand there's something called the two-bond process, but it's not double-dipping?

MR. LEW: There is no double-dipping. The simple explanation is that since 1983, the Social Security trust fund has been accumulating assets. That was the plan in 1983 to save Social Security. Those assets are in the form of Treasury bonds. That Treasury bond is sitting there, is a debt the United States government owns, full faith and credit. In the history of the United States, all bonds issued by the United States have been paid. And I would defer to the Secretary to make predictions for the future.

Q - may be redeemed someday if the deficit -

MR. LEW: They'll have to be redeemed. The question then is, what do you do with the unified surplus? We've been running a substantial deficit until the last two years; now we're running a surplus. The unified surplus, once it is the unified surplus, what you do with the dollar, it doesn't really matter where it came from. If you put that dollar to a tax cut, then you're going to be decreasing our fiscal position and ability in the future to pay our bills. If you save it the way the President has proposed, we're increasing our ability to pay our bills in the future.

Q You're not putting it into Social Security - I mean, these phrases and -

MR. LEW: Well, if you trace the dollar, the Social Security trust fund keeps the dollar it has. Then there is a Treasury bond that is in the Social Security trust fund. The question is, what do you do when the federal government has that dollar in the unified surplus -

Q Having given the bond.

MR. LEW: Having given the bond. You have three choices. You can give the tax cut or the spending cut, which would mean the money goes out, you could save it. And we're saying we should save it by putting another bond in the Social Security trust fund, which is a first call in the future on general revenues to pay that bond. And we'll be able to meet that obligation provided we keep to a responsible fiscal policy.

Q - obligation in the second bond?

MR. LEW: Correct. We already have the obligation for the benefits. The benefits are all under - presently due.

Q How is that a better approach to debt reduction than accelerating the retirement of the debt so you actually reduce the gross debt?

MR. LEW: I think the economists, when they look at the burden of the federal government on the economy, look at the debt held by the public. That's the measure and I would defer to the economists on the panel to perhaps do a little bit more on that. But that's the measure that economists look at. Chairman Greenspan made that point last week when he testified. That's the question of whether or not we're crowding out private investment.

The obligation to pay these bonds in the future to the Social Security trust fund are really a question of what we do in the long-term, what the first call on federal dollars is, and we're saying we should pay the bills we already have before we make commitments to new obligations.

Q I'd like to ask Secretary Rubin, please. Several top Republicans on the Hill are pushing for, as you know, a 10 percent across-the-board tax cut. It's their priority, what they'd like to do with the extra surplus. And Senator Domenici has talked about possibly getting that up to a 15 percent margin - tax break. Is there any chance at all that the administration in the Fiscal Year 2000 budget would end up agreeing to any across-the-board tax cut in upcoming negotiations as the year progresses with Republicans?

SECRETARY RUBIN: Three quick comments, if I might. Number one, as you know, we wouldn't do anything until we address Social Security. Comment number two, we have, once Social Security is addressed, as you know, a tax cut - our USA accounts, our savings accounts, which I think are very well constructed, because they're a tax cut, on the one hand, but on the other hand, they do induce savings, and our nation has a very low personal savings rate.

And number three, for the reasons that Jack and Gene and all of us have described, I think that taking the surplus, which is savings, and retaining those savings by paying down long-term - the publicly held federal debt contributes enormously to positioning our country for economic growth in the years ahead. It's really the fiscal discipline strategy we've had for the last six years. And I think it is, from the point of view of the American people, increasing jobs, increased standard of living, a far better use of the surplus then consuming it now with a tax cut.

Q So, that's a no?

SECRETARY RUBIN: That's a complete analytic response to your question. (Laughter.)

Q That's a lovely analysis, but you'll have negotiations presumably later in the year in which they're going to push -

SECRETARY RUBIN: We undoubtedly will have negotiations. And I have described to you how we think the negotiations should come out.

Q Secretary Rubin, you mentioned corporate tax cuts and corporate loopholes -

SECRETARY RUBIN: No, I think I actually did use the word corporate tax shelters.

Q Were you referring to the multinational hybrids? I mean, what is it that you want to tighten up specifically?

SECRETARY RUBIN: Well, if you take a look at the document we handed out to you - actually, I have one on my desk, too - there is a whole host in there of specific corporate tax shelters that we would like to deal with and, in fact, propose dealing with. But there really is a more general problem, which is that the use of corporate tax shelters is proliferating. We can't - the Treasury Department can't anticipate all the practices that might take place.

So what we have done, in addition, is propose a set of what I call generic sanctions for engaging in corporate tax shelter activity as a way of trying to deter that activity more generally. I think that's a very, very important initiative and I know that there is support on both sides of the aisle in Congress for pursuing this.

Q Jack, what is your plan for Social Security if there is a recession - and I assume those things still could happen - and these surpluses do not materialize?

MR. LEW: As Janet Yellen described, our economic forecasts are conservative. They continue to be conservative as they've always been in the past six years. In addition to looking at the middle range, not taking the most optimistic possible forecast for budget purposes, we have to remember that all of this savings is likely to have a beneficial effect on the economy. We have not taken account of any of that, either.

It's always the case that on a year-to-year basis, estimates are estimates, and we don't have absolute knowledge going forward of what will happen in a given year. What we do know is that if we reduce the debt, if we do follow the course of long-term fiscal discipline that we've outlined, that over the next 15 years this is a responsible way to use the surplus. In a given year, there may be ups and downs in terms of what the bottom line is for the unified budget, but over time, it ought not to be a problem.

Q But aren't you, just to follow up, I mean, by devoting - by solving so much of the problem with the surplus, aren't you potentially delaying tough choices down the road? I mean, after all, we haven't had a recession in eight years; it seems unlikely, just on the face of it, that there will be another eight years without a recession.

MR. LEW: I want to underscore something that Gene said in the beginning. First of all, the President has not said that this should be the end of the discussion; this is the beginning of the discussion. Extending the trust fund to 2055 is not our entire goal. We would like to engage in a bipartisan discussion to get the rest of the way to 75 years.

If there is an alternative to get to 2055 that is capable of reaching bipartisan support, we would like to see that alternative. The one thing we know for sure is that the benefits are due under current law, and our ability to pay the benefits will only be enhanced by setting these assets aside, and it will be made worse if we spend or have tax cuts that deplete these resources for other purposes. So regardless of what happens on a year-to-year basis, we know that this is the best possible way to prepare for the future.

Q It doesn't do anything, though, to extend the cash flow surplus, right, on either the Medicare proposal or the Social Security proposal?

MR. LEW: No, absolutely it does. Right now, it extends from 2032 to 2055.

Q Cash flow - not the trust fund balance, but the payroll tax benefit in 2012 -

MR. LEW: That's true. The current year-to-year receipts versus outlays would not change by this proposal.

Q And the same thing with Medicare, correct?

MR. LEW: That's correct.

Q Can I ask a question about the spending caps? Obviously, the future programs, as you say, are contingent on a Social Security fix. But looking at the budget you propose, you're basically looking at about $200 billion of spending over the caps between now and 2004, $75 billion through fee increases and $137 billion through allocating the surplus. Is that basically a statement that says you cannot really live with the spending caps in the 1997 balanced budget agreement?

MR. LEW: I think what the President made very clear in the State of the Union and he reiterated again today that as we have this debate over what to do with the surplus, one of the things that we need to do is make more resources available for defense and other urgent discretionary priorities.

The 2000 plan that we've put forward is consistent with the caps and consistent with all the current budget laws. It would be difficult, no doubt, as it has been over the past several years. The reason we balanced the budget is we made some very tough choices. Before we make commitments to other spending or tax cuts, we and the President, in the form of the framework that he laid out made clear that there is a need for more discretionary resources.

You're asking the question, could we live with the caps? I think the 2000 budget proves that we are living with the caps. We've proposed that we fix Social Security and then also create more room for important spending in these areas. I think there's a bipartisan consensus of a need for more resources for defense. I think there's a bipartisan consensus that there's a need for more resources for education. The challenge is to fix Social Security before the rest of the pie starts getting cut up.

Q This is for the Secretary. After $21.3 billion for foreign affairs, how much would you expect to be using for the - to stabilize the international economy, and of that, how much - if the Brazilian economy continues to fall, how much would you expect to use to continue helping Brazil, and at what level do you expect the real to stabilize?

SECRETARY RUBIN: Larry, exactly what level is the real going to stabilize? I was thinking of the same thing. Well, no.

DEPUTY SECRETARY SUMMERS: I wouldn't advise trading based on my answer. (Laughter.)

SECRETARY RUBIN: I agree with that. No, look, Brazil, is obviously very important. Activities in Brazil are being centered around the IMF. The IMF received its funding last year, as you know, and whatever happens in Brazil, obviously Brazilian policy being the most important thing, will not involve the federal budget.

Q Secretary Rubin, I believe you stated the administration's position on across-the-board tax cuts. Is the administration open to revisiting other forms of targeted tax cuts, such as eliminating marriage penalty, estate taxes -

SECRETARY RUBIN: Yes, we have always felt that eliminating the marriage penalty is a very seriously important objective. The problem is it's very expensive. And as I recollect, we said last year, within our limited constraints we have made the choices we've made, but that's something we'd very much like to work with Congress on. The AMT, very similarly; there's a problem developing, at least in the little bit of time ahead, with respect to AMT in that it starts to affect families, middle-income families. That's another issue that we feel very strongly we want to work with Congress on, though, as you'll notice, we do have an initial AMT proposal in this budget.

Q Secretary Rubin, what would be the income ceiling to the USA accounts?

SECRETARY RUBIN: On USA accounts, what the President did was to set out a framework, and we are working right now in our administration with respect to the specifics through the NEC and Treasury tax people, OMB and all the rest - working together to develop the specifics, and then we'll be working with Congress. But we are not prepared yet to announce specifics.

Q But can you give us any clue as to whether there would be any consideration taken for states like your home state, which always get hurt when there's an across-the-board income ceiling?

SECRETARY RUBIN: Well, there would be - the savings accounts will be uniform across the country. They will be designed so as to particularly benefit people in lower and middle-income brackets, because these are the people that find it most difficult to save, and the place where, if you provide matching tax incentives, you can most effectively increase your tax rate.

Q How will you be treating it as a tax cut?

SECRETARY RUBIN: In order to provide this as a tax cut, it would be a tax credit that is rebatable. Is that your question?

Q Yes.

Q Mr. Secretary, a few weeks ago we were being told by economists that, because of the Asian and Brazilian crises, American consumers would have to be the consumers of last resort, you know, buy sneakers from Asia to help them out of their problems. Is that true? And if so, is there enough money in your budget for Americans to continue to consume?

SECRETARY RUBIN: No, I think what we said was that we have done our share - very much done our share in terms of absorbing exports from these countries as they work their way back - but we cannot be the consumers of last resort. And it is very important that Europe and Japan both stimulate the domestic demand-led growth and open their markets.

They have both - in the case of Europe, if I recollect correctly, a large, rather stable trade surplus, and Japan an increased - or also a large and, I think, still increasing trade surplus, or at the very least stable - I think it's increasing. And what we said was that we cannot be the consumers of last resort, and these other areas have to both promote and effectively stimulate effective domestic demand-led - effectively domestic demand-led growth, and then open their markets so that they, too, can do their share.

Q Mr. Secretary, what is the total number of revenue raisers in the budget? And what part of that is the cigarette tax, and what part is the corporate loophole?

SECRETARY RUBIN: Well, there's two different things. The revenue raisers are approximately $34 billion, and that fully pays for the targeted tax cuts. That's one set. The tobacco excise tax is a different matter, and we start there, not with the tax, as you just suggested, but rather with the cost to the federal government that derive from smoking. And then what we did was to conclude that that seemed to us should be paid for by an excise tax on tobacco. And that's where the tobacco tax comes from.

Q How much is that?

SECRETARY RUBIN: My recollection, but correct me if I'm wrong, it was $34 billion over - what was it over five? Jack will get us the exact number. I don't remember the exact number. I think, Jack, it was - well, let's see if I'm right or wrong; $34 over five, no?

MR. LEW: $34.5.

SECRETARY RUBIN: $34.5 over five.

Q It would all go to -

SECRETARY RUBIN: It would all go to offset the cost to the federal government that derived from smoking.

Q So where is that in the budget?

SECRETARY RUBIN: What page?

Q No, I mean is that somewhere in the HHS budget, is that somewhere in - where would we see the $34.5 billion?

SECRETARY RUBIN: There is a table there someplace which shows that as an offset to the precisely - in fact, there is a whole table on that which shows that as an offset to the expenditures that the smoking has created.

Q So that's not counted as new receipts, that's counted as an offsetting -

SECRETARY RUBIN: It was an offset to the cost that had been created for the federal government. Jack can explain that.

MR. LEW: If you look at page 378 in the budget you'll see it laid out. There are many different ways of looking at what the cost to the federal government of tobacco-related illnesses. What we've done is we've looked at the discretionary cost to the government that it related to tobacco illness. It's mostly in veterans programs, federal employee health, DOD health and Indian health. In 2000 alone, that's $8 billion. Over the next five years it exceeds the $34.5 billion that the 55 cent excise tax would bring in.

And we think that this is comparable to the case made, I think quite effectively and correctly, by the states that the states should be reimbursed for the cost associated with tobacco illness that are borne by state government. This is a statement that rather than have the American taxpayers foot the bill it should be paid ultimately by the tobacco companies, which is where the burden of an excise tax ultimately falls.

Q - there is no changes in Social Security or Medicare, at what point under current assumptions would the budget, if indeed it would, go back into a deficit? In other words, if no changes are made in Medicare - we have a current program, we keep it for more than 15 years, Social Security doesn't change - does the budget go back into the red and when?

MR. LEW: Well, if you were to leave the baseline forecasts that assume no spending, no tax cuts, you have surpluses that go on for a very, very long period of time. I don't remember the year it crosses, but it's many decades out. The risk is that the temptation is to spend the money or to give it as a tax cut. What we proposed is that the money be set aside so that it goes into the Social Security trust fund, it goes into the Medicare trust fund, to pay the obligations we already owe out of those trust funds.

The risk of the debt reduction option is it's awfully tempting not to stick with it. We think by putting the money into the Social Security and Medicare trust funds it makes it much more difficult to then take the money out and use it for anything else.

Q Did you net out the saving to the government of earlier deaths from smoking, and if not, why not?

MR. LEW: That's actually something that afterward I might ask you to follow up with some of our technical people. That's a question I've never been asked before, about earlier deaths. The question that we looked at in putting this years budget together was really very much like the question we asked last year.

Last year we had a phase-in of an excise tax of $1.10, and it was designed to deal with the very terrible problem we have that 3,000 kids a day start smoking. And the analysis last year led us to believe that a tax that phased in - an excise tax phasing in at $1.10 would cut that in half and very, very substantially reduce the tobacco-related illness in the future.

We had to take into account this year that the state settlement was in place, and it was roughly comparable to half of what we did last year. So what we did was, we left in place half of last year's excise tax, which corresponds, as Secretary Rubin said and as I was saying a moment before, to reimbursing the federal government for a large share of the health care costs associated with tobacco illness.

Q If the point is to make it a deterrent to teen smoking, why go through the exercises of adding up some numbers that - say $34 billion? If you don't do the offsets, you're not saying that folks are dying at 60 or 62 and they have no Social Security -

MR. LEW: The way to reduce teen smoking is to raise the cost of smoking. And by raising the cost of smoking, we are very hopeful that the number of kids who start smoking will be cut in half. That's the goal.

Q - money you recoup from states in directed settlements, how are you counting that? Is that a revenue -

MR. LEW: What we've said is that we want to work with the Congress to try and work out legislation that would address this question. In the year 2000, we have not put anything in our budget in terms of allocating the resources that are related to the recoupment issue. What we've said for 2001 and beyond is that our goal is to work on having a list of federal-state agreed-upon priorities, where states will pick up the burden and relieve some of the federal burden. We've not allocated it in the budget; it's just a general allowance in the budget. It could be any number of different programs. The question is to agree upon a set of programs that would reduce the burden on the federal budget, and it could be tobacco-related programs, it could be other programs. And we've just put it in as a way to begin that dialogue.

Q You've given us 15-year provision for the President's budget and for priorities and allocations of the surpluses. If you were to give us a second 15-year period, from 2015 to 2030, when you really have the full impact of the baby boomers' retirement, aren't you then going to be, in effect, in a position where you might well easily slip into deficit budgets to meet the obligations you're making? And I imagine your argument will be that the public debt would be at such a low level that you could more easily manage these deficits. Is that the second 15-year outlook? (Laughter.)

DEPUTY SECRETARY SUMMERS: You got it exactly right. The appeal of this strategy of using Social Security as a lockbox is that it scales dramatically down the burden of the debt on the public in terms of investment, and on the federal budget in terms of interest. Already, by 2015, interest as a share of the federal budget would be down to 2 percent, and it would be declining. That makes room and provides the capacity to meet in a much more satisfactory way the other obligations.

The other virtue of using Social Security as a lock box, other than that it is a politically robust way of ensuring that we actually do reduce the surpluses, is that it assures that the benefits of those surpluses redown to what I think is most Americans' first priority, which is meeting our obligation to the next generation of seniors under Social Security. So it provides both the means to meet the long-term obligations and the political commitment to meet the long-term obligations.

Q Barring tax increases in that second 50-year period, it is reasonable to assume that we will have a period of fairly manageable deficits rather than surpluses, because you'll have to redeem the obligations to this bulge of baby boomers.

DEPUTY SECRETARY SUMMERS: Gene can, I'm sure, answer this by talking about our unified surplus going out long-term.

MR. SPERLING: What Jack was saying was what the exact year is may depend on different assumptions, but what I wanted to make clear is, up until at least the first few decades of the next century, we are able to redeem all of what is owed to Social Security and still run a surplus on top of it. So what's dramatically changed around from five or six years ago is then people would put bonds in Social Security and in the trust fund, and they would say, how are you possibly going to pay those back? They'd say, you have $600 billion, $700 billion, $800 billion deficits in the future; you have to borrow that much just to make the government run; then you have to borrow more on top to pay back Social Security.

We are now in a situation where, well into 2030, 2040, we can pay back all that is owed Social Security and still run a surplus on top of that.

The important point that I do want to make, and it goes to the question that was asked earlier, is we are not in any way increasing our obligation or our promise to Social Security. There is right now an existing promise to pay Social Security recipients a certain benefit when they retire. In 2035, we simply right now do not have the financing to pay that existing promise. So we're not increasing our obligation, we're not saying you get Social Security benefits plus a toaster and a new calendar. We're saying you have - there is that promise by the government - what can we do that's real, that's real economically to help finance that.

By paying down this trillions of dollars of debt, what we're doing is we are lowering the net interest costs to the government; we are, hopefully, increasing the revenues, making it a richer country and a richer government, and putting ourselves in a better situation to pay back. So when someone says, what's the difference between if we took $2 trillion in debt reduction and you took $2 trillion the way we're doing it - economically, they would have the exact same impact to 2032. They would both create a big deficit reduction - a debt reduction dividend. So the country would have a debt reduction dividend in 2032, whether you did our plan or pure debt reduction.

So what's the difference? We're saying, since we have an unmet promise to Social Security, let's put Social Security first in line; let's just say meeting that promise between 2032 and 2055 should get the first call on the debt reduction dividend. And that is really what the President is doing.

And what Larry was saying, and Senator Landrieu, who was a former Secretary of - a Treasurer in Louisiana has also said, too, is that this may also be a more politically viable way to get the debt reduction, because instead of leaving it there every year and trusting every Congress not to spend it, by putting nearly $3 trillion essentially in a debt reduction lockbox where you're committing now the benefits to Medicare and Social Security, you get a win-win - you're doing something strong for the economy, you're locking in some of those benefits from debt reduction for Medicare and Social Security, and you're making it more likely the debt reduction will actually take place.

Q Is 2035 now the insolvency date for Social Security?

MR. SPERLING: 2032.

Q Gene, which parts of the budget - whether it's some tax credits or other initiatives - are you most optimistic will be acceptable to Republicans, are you most optimistic that you get passed this year?

MR. SPERLING: I think the most encouraging thing that we've heard has been the degree that many Republicans have rallied around reserving 62 percent of the surplus for Social Security. What's been disappointing is that many then go off and have a variety of different criticisms, have a variety of different ways for paying for other tax cuts or popular programs. What they're not telling the country is what would they do to make sure that Social Security is solvent; if they don't like the way we're getting to 2055, what would they do in its place and how would they work with us to get to 2075.

And the really deafening silence has been on Medicare. Medicare solvency becomes insolvent in 2008. Certainly, before any of us - any of us - talk about putting money to - whether it's a spending program or a tax cut people will care about

- certainly, in addition to securing Social Security for the future, people have a responsibility to ensure we have enough resources for Medicare.

We'd like to hear any member, Democrat or Republican, talk about what their plan for Medicare and Social Security is before they talk about other priorities that may be popular for the moment, but don't help us deal with our long-term retirement challenge.

Q Thanks very much.

Q Whoop-de-do. (Laughter.)

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The following is a transcript of a White House press briefing held today by Secretary of Treasury Bob Rubin, OMB Director Jack Lew, and National Economic Advisor Gene Sperling (part 1 of 5):

Presidential Hall

12:10 P.M. EST

MR. SPERLING: Welcome. This is our seventh budget briefing in the President's and Vice President's tenure. For six years, President Clinton and Vice President Gore have had a clear fiscal strategy: On one hand, we needed to reduce the public budget deficit so that we could increase savings, lower interest rates, and spur private sector investment. At the same time, we needed to increase our targeted investment in education, health care and research, to increase the productivity of our people. This two-tiered, this twofold investment strategy has clearly worked for the American people.

The Congressional Budget Office projected that the deficit that we would face this year when we came in was $404 billion. Instead we now project a $79 billion surplus. That is a $483 billion difference in the amount of money available to our private markets, to home owners, to people starting businesses. That is the amount of money that is now available for savings, for investment, because of the turnaround in our fiscal policy. Indeed, all of the doubling in national savings, from 3.1 to 6.7 percent since President Clinton has taken office, has been a result of the federal deficit reduction. With this lower interest rate, productive investment is at historic levels and has grown double digits for more than six years in a row.

At the same time, the President's efforts in doubling key education training initiatives, Head Start, we now spend $2.5 billion more per year than when we came in; education technology has gone from $23 million to nearly $800 million in this budget. WIC, the Women and Infant Children program, now serves 1.8 million more people. These are some of the results of a strategy of reducing the deficit, having fiscal discipline, and yet having a focus on investing in the productivity and potential of the American people at the same time.

In the President's State of the Union address, he clearly launched a new national debate on how our country should best allocate surpluses in a period of prosperity. And the President's fundamental message was a clear one: With the budget deficit cured, but a long-term retirement deficit looming, the fiscally and financially responsible way for this nation to deal with this period of surpluses is not to consume them today and turn a blind eye to the retirement challenges of tomorrow, but rather to save and invest them.

At the core of the President's proposal is a debt reduction lock box for Social Security and Medicare, a debt reduction lock box of nearly $3 trillion that will strengthen our economy, increase savings rates and at the same time, improve the solvency of Social Security and Medicare.

The impact of this plan is dramatic, as Jack Lew will go over more. In just six years from now, we will have taken the debt to below where it was when Ronald Reagan took office in 1981, essentially wiping out the increase in our publicly-held debt as a percentage of GDP, and it will fall to 7.1 percent of GDP by 2014, its lowest level since 1917.

We are ready and willing and, in fact, we think it is essential that we work in a bipartisan effort with the Congress to extend the solvency of Social Security for 75 years, and to modernize Medicare, and to make sure that it is not only solvent to 2020, but that it has the market incentives and modernization it needs to work in the next century and to free the resources that can help it be a better program, that can include prescription drugs.

I do want to make the following point, though, to those who have offered more criticisms and constructive suggestions, which is that the President, as an opening start in the dialogue on our surpluses, put forward a plan that was scored by the independent actuaries, Social Security and Medicare -- the same actuaries who have independently scored these through Democratic and Republican administrations for 30 years -- and what these show is that Social Security would be solvent to 2055 and Medicare would be solvent to 2020. This is not good enough. We need to work in a bipartisan way to do more -- to get Social Security solvent for at least 75 years, and to modernize Medicare and include prescription drugs.

But I do think it would be a worthy challenge of many of the President's critics to at least come forward with an opening proposal that shows how they would get Social Security to at least 2055 and Medicare solvent to at least 2020 -- under their principles, under their suggestions -- before any of us come forward with proposals for popular spending or tax cut programs for today. I think it would be reasonable for everyone to show how they are going to meet the test of extending the solvency and strength of Medicare and Social Security first. That's an important test, I think, for anyone who wants to have a fiscally responsible plan for the future in this new national debate of how best to allocate surpluses.

Before I turn over to Janet Yellen I do want to comment that there are many, many people who have been part of this budget team. The President created a National Economic Council six years ago to make sure that we functioned as a team, that we all work together, and this is the seventh budget that has been put forward with Jack Lew's leadership, the OBM Director's leadership, but operating and functioning as a team.

Some of the people I would just like mention quickly on the OMB staff who have been critical are Josh Gottbaum, Ed DeSeve, Bob Kyle, L.G. Holstein, Barbara Chow, Dan Mendelson, Michael Deich and Dick Emery. I would also like to mention my counterpart, the Domestic Policy Council Bruce Reed and his deputy, Elena Kagan -- their critical role in the development of the tobacco and education and crime proposals, as well as Sally Katzen and Chuck Marr on my own staff. And finally, two people who have been here right from the very start Joe Minarik and Alan Cohen.

There are many, many others at OMB and Treasury and the White House, but I would like to mention -- I would like to just mention them and thank them for their excellent work. I am going to be followed by Janet Yellen, our Chair of the Council of Economic Advisors, who will talk about the economic assumptions. Secretary Rubin will follow to talk about our tax initiatives, and then Jack Lew will follow with the overall framework of our budget. Also with me is Sylvia Mathews, who many of you know as the Chief of Staff, former Chief of Staff at Treasury and the former Deputy Chief of Staff in the White House. She is now the

number two person, Deputy Director of OMB. And also, all of you know Larry Summers, who will be available for questions as well, who is the Deputy Secretary of Treasury.

With that, I will turn things over to Janet Yellen.

MS. YELLEN: Thank you, Gene.

As Gene indicated, my job is to describe the administration's economic forecast that's contained in the budget that was released today. Before I do that, let me first say that for the past six years, this administration has established a strong reputation for using credible, conservative economic forecasts in its budget projections.

The administration's economic forecasting team was committed to ensuring that our budget balancing efforts would be based on realistic assumptions about the economy's performance and not on rosy scenarios. And I believe that the assumptions in this year's budget are similarly credible and are consistent with the views of the consensus of economic forecasters.

The economy's performance over the past six years has been extraordinary. Our nation is currently enjoying the longest peacetime expansion in American history. Since 1993, almost 18 million new jobs have been created, 2.9 million of them just this past year. Unemployment has been below 5 percent since July of 1997, and inflation stands at its lowest level in three decades. Real wages have grown more over the course of this expansion than in the 1980s.

Although growth over the last several years has exceeded our expectations, we believe that it would not be wise, for budgetary purposes, to count on a continuation of growth at its recent extraordinary pace. Looking ahead, we expect this economic expansion to continue, with new jobs created and real wages continuing to grow. But we're projecting real GDP growth at a slower, 2 percent annual rate over the next three years. At the same time, the unemployment rate is projected to edge up slightly. Inflation, as measured by the Consumer Price Index, is projected to increase at a 2.3 percent annual rate next year, which is about the same as the increase in the core CPI -- that's the CPI excluding food and energy -- over the past year.

After 2001, real GDP growth is projected to resume its assumed trend growth rate of 2.4 percent, and the unemployment rate is projected to stabilize at 5.3 percent. Our economic projections are very similar to those in our mid-session review last May, and the differences stem largely from integrating the better than expected economic performance during the past year. Our projections are also close to those of private forecasters and those of the Congressional Budget Office.

The shift to more moderate growth in 1999 reflects the view that tight labor markets are apt to constrain growth in the near-term, while several components of domestic demand may be poised to grow at slower rates. Consumption in particular has been growing faster than income and may be likely to slow to a solid, but sustainable pace. But it's important to note that our assumed real growth rates are not the best that this administration believes the economy can achieve. The outcome certainly could be better.

Let me conclude by saying that the U.S. economy remains strong in 1998 despite a serious weakening in the international economy, and the economy's ability to weather these storms is testimony to the soundness of the policies of the past six years and to the underlying strength of the current expansion.

At present, there is no evidence of domestic imbalances that would threaten the outlook for continued growth. I'd like to stop there and turn the podium over to Secretary Rubin, who will focus more on the tax side of the budget.

SECRETARY RUBIN: Thank you, Janet. Let me start with one personal comment, if I may, and then I'll just comment for a moment on taxes. I started, as a number of the people on the podium did -- not the podium; I'm the only one at the podium -- a number of the people up here did -- at the beginning of this administration -- during the transition, actually -- I don't think any of us could have imagined -- I know I could not have imagined -- that we would go from the period of the very high deficits of the '80s and the early '90s to the remarkable period we're in right now, with large surpluses, and have already begun the reduction of our debt, with the projections we have in this budget of continued surpluses and a continued reduction of our debt.

Larry Summers and I were talking about this outside. If Larry looked at a foreign economy that had accomplished this in this period of time, and was looking forward to the enormous debt reduction that is projected in this budget, I think he would look at it and say, that is a truly remarkable economic achievement, number one; and number two, that is an economy that really is well-positioned to do well economically in the future.

Having said that, let me say a word about the President's tax proposals. The President has proposed $34 billion in targeted tax cuts, all of which are fully paid for. I believe that you have a document there that describes the specific proposals. Let me just focus on two things, if I may. First, within that $34 billion, there's $11.7 billion of new targeted tax initiatives. These include a $1,000 tax credit to help compensate families for the cost of There is also a $700 tax credit to assist workers with disability, and there's tax relief for a parent who stays at home to take care of a very young child, which is in addition to our child care tax credit that we proposed last year.

Secondly, our budget deals with a very important problem that has developed: the proliferation of corporate tax shelters. Corporate tax shelters are defined as transactions that have, for practical purposes, virtually no pre-tax economic effect, or very little pre-tax economic effect, and that are done overwhelmingly for tax purposes and that don't have particular sanction in the tax code. These kinds of tax shelters violate the intent of Congress; they violate the code; they clearly erode the corporate tax base, and they breed disrespect for the tax law.

We have two sets of proposals. One is generic -- that is to say, proposals designed to deter this activity in general -- and then secondly, we take a number of known, specific corporate tax shelters, and we act against those. We're going to continue to focus on this at the Treasury Department, and we look forward to working with Congress and their staffs to attack and deal with this very important problem.

The tax proposals, as I've just described them, are a very important part of the President's budget, and I believe it is a budget that is extremely well put together with respect to meeting the economic and social challenges that lie ahead for this country.

With that, let me introduce OMB Director Jack Lew.

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HEADLINE: PRESS BRIEFING BY SECRETARY OF TREASURY BOB RUBIN, OMB DIRECTOR JACK LEW, AND NATIONAL ECONOMIC ADVISOR GENE SPERLING

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BODY:

MR. SPERLING: Welcome. This is our seventh budget briefing in the President's and Vice President's tenure. For six years, President Clinton and Vice President Gore have had a clear fiscal strategy: On one hand, we needed to reduce the public budget deficit so that we could increase savings, lower interest rates, and spur private sector investment. At the same time, we needed to increase our targeted investment in education, health care and research, to increase the productivity of our people. This two-tiered, this twofold investment strategy has clearly worked for the American people.

The Congressional Budget Office projected that the deficit that we would face this year when we came in was $404 billion. Instead we now project a $79 billion surplus. That is a $483 billion difference in the amount of money available to our private markets, to home owners, to people starting businesses. That is the amount of money that is now available for savings, for investment, because of the turnaround in our fiscal policy. Indeed, all of the doubling in national savings, from 3.1 to 6.7 percent since President Clinton has taken office, has been a result of the federal deficit reduction. With this lower interest rate, productive investment is at historic levels and has grown double digits for more than six years in a row.

At the same time, the President's efforts in doubling key education training initiatives, Head Start, we now spend $2.5 billion more per year than when we came in; education technology has gone from $23 million to nearly $800 million in this budget. WIC, the Women and Infant Children program, now serves 1.8 million more people. These are some of the results of a strategy of reducing the deficit, having fiscal discipline, and yet having a focus on investing in the productivity and potential of the American people at the same time.

In the President's State of the Union address, he clearly launched a new national debate on how our country should best allocate surpluses in a period of prosperity. And the President's fundamental message was a clear one: With the budget deficit cured, but a long-term retirement deficit looming, the fiscally and financially responsible way for this nation to deal with this period of surpluses is not to consume them today and turn a blind eye to the retirement challenges of tomorrow, but rather to save and invest them.

At the core of the President's proposal is a debt reduction lock box for Social Security and Medicare, a debt reduction lock box of nearly $3 trillion that will strengthen our economy, increase savings rates and at the same time, improve the solvency of Social Security and Medicare.

The impact of this plan is dramatic, as Jack Lew will go over more. In just six years from now, we will have taken the debt to below where it was when Ronald Reagan took office in 1981, essentially wiping out the increase in our publicly-held debt as a percentage of GDP, and it will fall to 7.1 percent of GDP by 2014, its lowest level since 1917.

We are ready and willing and, in fact, we think it is essential that we work in a bipartisan effort with the Congress to extend the solvency of Social Security for 75 years, and to modernize Medicare, and to make sure that it is not only solvent to 2020, but that it has the market incentives and modernization it needs to work in the next century and to free the resources that can help it be a better program, that can include prescription drugs.

I do want to make the following point, though, to those who have offered more criticisms and constructive suggestions, which is that the President, as an opening start in the dialogue on our surpluses, put forward a plan that was scored by the independent actuaries, Social Security and Medicare -- the same actuaries who have independently scored these through Democratic and Republican administrations for 30 years -- and what these show is that Social Security would be solvent to 2055 and Medicare would be solvent to 2020. This is not good enough. We need to work in a bipartisan way to do more -- to get Social Security solvent for at least 75 years, and to modernize Medicare and include prescription drugs.

But I do think it would be a worthy challenge of many of the President's critics to at least come forward with an opening proposal that shows how they would get Social Security to at least 2055 and Medicare solvent to at least 2020 -- under their principles, under their suggestions -- before any of us come forward with proposals for popular spending or tax cut programs for today. I think it would be reasonable for everyone to show how they are going to meet the test of extending the solvency and strength of Medicare and Social Security first. That's an important test, I think, for anyone who wants to have a fiscally responsible plan for the future in this new national debate of how best to allocate surpluses.

Before I turn over to Janet Yellen I do want to comment that there are many, many people who have been part of this budget team. The President created a National Economic Council six years ago to make sure that we functioned as a team, that we all work together, and this is the seventh budget that has been put forward with Jack Lew's leadership, the OBM Director's leadership, but operating and functioning as a team.

Some of the people I would just like mention quickly on the OMB staff who have been critical are Josh Gottbaum, Ed DeSeve, Bob Kyle, L.G. Holstein, Barbara Chow, Dan Mendelson, Michael Deich and Dick Emery. I would also like to mention my counterpart, the Domestic Policy Council Bruce Reed and his deputy, Elena Kagan -- their critical role in the development of the tobacco and education and crime proposals, as well as Sally Katzen and Chuck Marr on my own staff. And finally, two people who have been here right from the very start Joe Minarik and Alan Cohen.

There are many, many others at OMB and Treasury and the White House, but I would like to mention -- I would like to just mention them and thank them for their excellent work. I am going to be followed by Janet Yellen, our Chair of the Council of Economic Advisors, who will talk about the economic assumptions. Secretary Rubin will follow to talk about our tax initiatives, and then Jack Lew will follow with the overall framework of our budget. Also with me is Sylvia Mathews, who many of you know as the Chief of Staff, former Chief of Staff at Treasury and the former Deputy Chief of Staff in the White House. She is now the number two person, Deputy Director of OMB. And also, all of you know Larry Summers, who will be available for questions as well, who is the Deputy Secretary of Treasury.

With that, I will turn things over to Janet Yellen.

MS. YELLEN: Thank you, Gene.

As Gene indicated, my job is to describe the administration's economic forecast that's contained in the budget that was released today. Before I do that, let me first say that for the past six years, this administration has established a strong reputation for using credible, conservative economic forecasts in its budget projections.

The administration's economic forecasting team was committed to ensuring that our budget balancing efforts would be based on realistic assumptions about the economy's performance and not on rosy scenarios. And I believe that the assumptions in this year's budget are similarly credible and are consistent with the views of the consensus of economic forecasters.

The economy's performance over the past six years has been extraordinary. Our nation is currently enjoying the longest peacetime expansion in American history. Since 1993, almost 18 million new jobs have been created, 2.9 million of them just this past year. Unemployment has been below 5 percent since July of 1997, and inflation stands at its lowest level in three decades. Real wages have grown more over the course of this expansion than in the 1980s.

Although growth over the last several years has exceeded our expectations, we believe that it would not be wise, for budgetary purposes, to count on a continuation of growth at its recent extraordinary pace. Looking ahead, we expect this economic expansion to continue, with new jobs created and real wages continuing to grow. But we're projecting real GDP growth at a slower, 2 percent annual rate over the next three years. At the same time, the unemployment rate is projected to edge up slightly. Inflation, as measured by the Consumer Price Index, is projected to increase at a 2.3 percent annual rate next year, which is about the same as the increase in the core CPI -- that's the CPI excluding food and energy -- over the past year.

After 2001, real GDP growth is projected to resume its assumed trend growth rate of 2.4 percent, and the unemployment rate is projected to stabilize at 5.3 percent. Our economic projections are very similar to those in our mid-session review last May, and the differences stem largely from integrating the better than expected economic performance during the past year. Our projections are also close to those of private forecasters and those of the Congressional Budget Office.

The shift to more moderate growth in 1999 reflects the view that tight labor markets are apt to constrain growth in the near-term, while several components of domestic demand may be poised to grow at slower rates. Consumption in particular has been growing faster than income and may be likely to slow to a solid, but sustainable pace. But it's important to note that our assumed real growth rates are not the best that this administration believes the economy can achieve. The outcome certainly could be better.

Let me conclude by saying that the U.S. economy remains strong in 1998 despite a serious weakening in the international economy, and the economy's ability to weather these storms is testimony to the soundness of the policies of the past six years and to the underlying strength of the current expansion.

At present, there is no evidence of domestic imbalances that would threaten the outlook for continued growth. I'd like to stop there and turn the podium over to Secretary Rubin, who will focus more on the tax side of the budget.

SECRETARY RUBIN: Thank you, Janet. Let me start with one personal comment, if I may, and then I'll just comment for a moment on taxes. I started, as a number of the people on the podium did -- not the podium; I'm the only one at the podium -- a number of the people up here did -- at the beginning of this administration -- during the transition, actually -- I don't think any of us could have imagined -- I know I could not have imagined -- that we would go from the period of the very high deficits of the '80s and the early '90s to the remarkable period we're in right now, with large surpluses, and have already begun the reduction of our debt, with the projections we have in this budget of continued surpluses and a continued reduction of our debt.

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With that, let me introduce OMB Director Jack Lew.

MR. LEW: Thank you. I thought I would walk through the structure of the budget which -- we will have some pictures here to perhaps help explain it. The President sent a budget to Congress today which is the third consecutive budget that will be in a surplus. This is an accomplishment which I think is underscored by the fact that it's the first time in a half a century that anyone could stand up here and say that. What this budget does is it charts away into the next century for long-term fiscal discipline and investment in our priorities.

We have enormous opportunity with the new surplus. We're going to show you a picture that I think you're all familiar with which we've been using for the last several years. There used to be a lot more red on it. What we've done is worth taking a moment to remark on. We've eliminated $3.1 trillion of deficits since 1980. And the green that you see there were projected deficits where when we started we were looking at $5.5 trillion of deficits from 1993 through 2004. We're now looking at $1 trillion of surpluses. This is an accomplishment that also puts responsibility on us to make the decisions that will keep this kind of economic record going forward in the future.

Fiscal discipline has helped bring about the longest peacetime expansion in many decades. The economy has created 17.7 million new jobs. I think Gene and Secretary Rubin have gone through the many economic statistics that underscore how important the budget is to long-term economic prosperity.

In terms of the tax burden on American families, I think we have to begin by noting that the typical family of four has seen its tax burden go down, not up. If you look at the median family, family of about $45,000 a year, they're paying lower income and payroll taxes than at any time in 23 years. A family at half the median level is actually receiving money back because of the changes in the earned income tax credit and the child care credit. Even a family at twice that level is paying the lowest taxes as a share of income than at any point since 1977.

We've balanced the budget and we're running a surplus because we've controlled federal spending. The budget in the year 2000 will continue the trend that we've followed for the last six years. It will reduce the size of government as a percentage of the economy year after year after year. This year, it will be lower than it was last year as each budget has been lower than the year before it, and lower than in either of the two previous administrations.

Key element in the administration's ability to expand investments while reducing the size of government has been the reinvention of government. We've reduced the size of the federal civilian work force by more than 345,000. We have the smallest federal work force since 1931. We're doing more with less, and we're getting more for the tax dollars the American people send.

Gene's gone through the numbers about what the deficits were projected to be, and at the risk of repetition I'm going to just underscore them, because they really need to be understood. The numbers are too large to say just once. In 1993, we were projecting deficits of $390 billion a year for 1998 -- 5 percent of the economy. Instead, we ran a surplus.

By 2003, the projections were for over $600 billion a year, in one year alone -- that's that sea of green ink at the bottom. By taking tough action in 1993 and finishing the job in 1997, we've now created the opportunity to chart a path of how we budget with surpluses for the next generation.
This morning, the President used this chart, which I think summarizes the story of this budget better than all of the others. When the President took office six years ago and we were looking at the seas of deficits, the debt, the total amount that the government has borrowed from the public, was doubling from 25 percent to 50 percent as a share of GDP -- 1980 to 1992.

The framework that the President set forward will reduce the total size of the government debt to 7 percent, the lowest level since the United States entered World War I. The framework for Social Security reform and long-term fiscal discipline that the President laid out accomplishes this by devoting the lion's share to savings and to setting aside resources for the future. The 62 percent dedicated to Social Security, the 15 percent dedicated to Medicare -- what that's saying is that we're going to set this money aside, we're going to put it in the Social Security trust fund. We're not going to spend it today so that we can have it tomorrow to pay the benefits that are already due.

The two pieces of the President's plan that actually do commit resources are the Universal Savings Accounts, which are a tax incentive for savings to increase the retirement savings that Americans have in the future and an investment in military readiness and other critical investments. We think this is a prudent, balanced package, but it's that green area which is the savings that contributes to the reduction in debt held by the public.

The piece that's in equities doesn't technically reduce the debt held by the public, but it does set aside an asset -- corporate equities that will be held by the trust fund so it does increase savings.

There have been a lot of questions about the accounting behind the President's budget, and I think that we need to underscore a very, very basic point. Every dollar that's in the unified budget surplus can only be spent once. It's either going to go to a tax cut or a spending increase; to debt reduction, or to what the President has proposed, which is both debt reduction and setting aside assets for Social Security and Medicare. Tax cut or spending have the same effect -- they create future obligations, they add to the public debt, and they don't put another penny into the Social Security trust fund.

I think we've agreed with the economic view that debt reduction has many virtues, with or without the Social Security investment. It reduces the public debt without adding any new obligations, but it, too, doesn't set a penny aside for Social Security or Medicare trust funds. What the President has proposed is to put the money into the trust funds, to reduce the public debt, to not take on any new obligations, and increase the assets that are there for Social Security and Medicare in the future.

We've been struggling to try and boil down to a fairly simple statement why this all works, and I think this picture tells the story, and the President referred to it earlier this morning. When we, in 1993, were projecting interest as a share of the budget, and for the year 2014, the last year of the 15-year period that we're now looking at, we were projecting that interest would be 27 percent of the federal budget -- 27 cents out of every dollar was going to go to interest. Under the President's proposal only 2 cents of every dollar will be going to interest. That means that the rest of that money is available and it's available to be paid to the Social Security trust fund, to pay benefits that are already due.

To put this in dollar terms, the projection in 1993 would have had interest costs in 2014 at $1.3 trillion in one year alone -- just interest on the national debt. What we're projecting now is $60 billion. That is a tremendous reduction. It's a reduction that means that federal budgets in the future will not be constrained and we won't see productive useful dedication of resources squeezed out by interest costs that are out of control.

The President proposes a legacy of building for the future by saving Social Security and Medicare, encouraging Americans to save for their own future retirement and by setting aside resources for critical investments in national defense and other priorities, including education and the other things we've talked to you about for the last several weeks.

Everything that the President is proposing in his year 2000 budget is paid for. That 11 percent is only triggered in 2001 after we finish Social Security reform. This year's budget picks up where last year's budget left off. Last year the President said, save the surplus until we fix Social security first. This year the President has laid out a framework for fixing Social Security and then proceeding to meet the other challenges that face us as a nation.

That is an overview of the budget. Rather than go into all of the facts and figures, I think we at this point would like to turn it to you to ask questions, and all of us are available to answer questions.

Q Is the 62 percent in reality what the surplus would put to Social Security, what Social Security surpluses would amount to anyway? Is it less or more?

MR. LEW: The Social Security trust fund will continue to keep every penny that is put into it over the course of the next 15 years. We're putting these resources in addition, which will take the trust funds -- the increase in the trust fund up to a total of $5.5 trillion. It would have been $2.7 and it will be $5.5, plus about $1 to $2 trillion that would have been there anyway. So we're very substantially increasing the assets in the Social Security trust fund.

Q So you're adding quite a bit --

MR. LEW: Correct.

Q -- of general fund surpluses to the Social Security --

MR. LEW: All of the obligations to the trust fund are in the form of treasury specials, except for the portion in equities. When those are redeemed, those would be redeemed with general revenue, as are all obligations to the trust fund.

Q Of the $17 billion projected surplus, how much of that comes from FICA taxes collected?

MR. LEW: Well, in the current fiscal year that we're about to begin work on, fiscal 2000, the on-budget is in a very small deficit to the off-budget, which is the area where FICA taxes are in substantial surplus. So in the first year, the answer is "all." As you proceed through the next 15 years, that ration shifts.

The important thing -- and we all have to remember -- is that when we get to the year 2012, the payments will start to reverse. The bonds that are in the Social Security trust fund will start to be redeemed, and the important question will be, is there enough of a unified budget surplus, enough of a non-Social Security surplus to pay those bills.

In 1993 when we came in, there were forecasts of $600-billion deficits and people got scared -- how would those bills be paid? By reversing that and by running a surplus for all of this period, we know that the bills can be paid.

Q Well, I'm not very sophisticated about this -- "all" is the word you gave, right?

MR. LEW: For the year 2000, but not over the next 15 years.

Q Please help me out and understand how you can put money into a Social Security fund that, in effect, comes from the Social Security fund. I understand there's something called the two-bond process, but it's not double-dipping?

MR. LEW: There is no double-dipping. The simple explanation is that since 1983, the Social Security trust fund has been accumulating assets. That was the plan in 1983 to save Social Security. Those assets are in the form of Treasury bonds. That Treasury bond is sitting there, is a debt the United States government owns, full faith and credit. In the history of the United States, all bonds issued by the United States have been paid. And I would defer to the Secretary to make predictions for the future.

Q -- may be redeemed someday if the deficit --

MR. LEW: They'll have to be redeemed. The question then is, what do you do with the unified surplus? We've been running a substantial deficit until the last two years; now we're running a surplus. The unified surplus, once it is the unified surplus, what you do with the dollar, it doesn't really matter where it came from. If you put that dollar to a tax cut, then you're going to be decreasing our fiscal position and ability in the future to pay our bills. If you save it the way the President has proposed, we're increasing our ability to pay our bills in the future.

Q You're not putting it into Social Security -- I mean, these phrases and --

MR. LEW: Well, if you trace the dollar, the Social Security trust fund keeps the dollar it has. Then there is a Treasury bond that is in the Social Security trust fund. The question is, what do you do when the federal government has that dollar in the unified surplus --

Q Having given the bond.

MR. LEW: Having given the bond. You have three choices. You can give the tax cut or the spending cut, which would mean the money goes out, you could save it. And we're saying we should save it by putting another bond in the Social Security trust fund, which is a first call in the future on general revenues to pay that bond. And we'll be able to meet that obligation provided we keep to a responsible fiscal policy.

Q -- obligation in the second bond?

MR. LEW: Correct. We already have the obligation for the benefits. The benefits are all under -- presently due.

Q How is that a better approach to debt reduction than accelerating the retirement of the debt so you actually reduce the gross debt?

MR. LEW: I think the economists, when they look at the burden of the federal government on the economy, look at the debt held by the public. That's the measure and I would defer to the economists on the panel to perhaps do a little bit more on that. But that's the measure that economists look at. Chairman Greenspan made that point last week when he testified. That's the question of whether or not we're crowding out private investment.

The obligation to pay these bonds in the future to the Social Security trust fund are really a question of what we do in the long-term, what the first call on federal dollars is, and we're saying we should pay the bills we already have before we make commitments to new obligations.

Q I'd like to ask Secretary Rubin, please. Several top Republicans on the Hill are pushing for, as you know, a 10 percent across-the-board tax cut. It's their priority, what they'd like to do with the extra surplus. And Senator Domenici has talked about possibly getting that up to a 15 percent margin -- tax break. Is there any chance at all that the administration in the Fiscal Year 2000 budget would end up agreeing to any across-the-board tax cut in upcoming negotiations as the year progresses with Republicans?

SECRETARY RUBIN: Three quick comments, if I might. Number one, as you know, we wouldn't do anything until we address Social Security. Comment number two, we have, once Social Security is addressed, as you know, a tax cut -- our USA accounts, our savings accounts, which I think are very well constructed, because they're a tax cut, on the one hand, but on the other hand, they do induce savings, and our nation has a very low personal savings rate.

And number three, for the reasons that Jack and Gene and all of us have described, I think that taking the surplus, which is savings, and retaining those savings by paying down long-term -- the publicly held federal debt contributes enormously to positioning our country for economic growth in the years ahead. It's really the fiscal discipline strategy we've had for the last six years. And I think it is, from the point of view of the American people, increasing jobs, increased standard of living, a far better use of the surplus then consuming it now with a tax cut.

Q So, that's a no?

SECRETARY RUBIN: That's a complete analytic response to your question. (Laughter.)

Q That's a lovely analysis, but you'll have negotiations presumably later in the year in which they're going to push --

SECRETARY RUBIN: We undoubtedly will have negotiations. And I have described to you how we think the negotiations should come out.

Q Secretary Rubin, you mentioned corporate tax cuts and corporate loopholes --

SECRETARY RUBIN: No, I think I actually did use the word corporate tax shelters.

Q Were you referring to the multinational hybrids? I mean, what is it that you want to tighten up specifically?

SECRETARY RUBIN: Well, if you take a look at the document we handed out to you -- actually, I have one on my desk, too -- there is a whole host in there of specific corporate tax shelters that we would like to deal with and, in fact, propose dealing with. But there really is a more general problem, which is that the use of corporate tax shelters is proliferating. We can't -- the Treasury

Department can't anticipate all the practices that might take place.

So what we have done, in addition, is propose a set of what I call generic sanctions for engaging in corporate tax shelter activity as a way of trying to deter that activity more generally. I think that's a very, very important initiative and I know that there is support on both sides of the aisle in Congress for pursuing this.

Q Jack, what is your plan for Social Security if there is a recession -- and I assume those things still could happen -- and these surpluses do not materialize?

MR. LEW: As Janet Yellen described, our economic forecasts are conservative. They continue to be conservative as they've always been in the past six years. In addition to looking at the middle range, not taking the most optimistic possible forecast for budget purposes, we have to remember that all of this savings is likely to have a beneficial effect on the economy. We have not taken account of any of that, either.

It's always the case that on a year-to-year basis, estimates are estimates, and we don't have absolute knowledge going forward of what will happen in a given year. What we do know is that if we reduce the debt, if we do follow the course of long-term fiscal discipline that we've outlined, that over the next 15 years this is a responsible way to use the surplus. In a given year, there may be ups and downs in terms of what the bottom line is for the unified budget, but over time, it ought not to be a problem.

Q But aren't you, just to follow up, I mean, by devoting -- by solving so much of the problem with the surplus, aren't you potentially delaying tough choices down the road? I mean, after all, we haven't had a recession in eight years; it seems unlikely, just on the face of it, that there will be another eight years without a recession.

MR. LEW: I want to underscore something that Gene said in the beginning. First of all, the President has not said that this should be the end of the discussion; this is the beginning of the discussion. Extending the trust fund to 2055 is not our entire goal. We would like to engage in a bipartisan discussion to get the rest of the way to 75 years.

If there is an alternative to get to 2055 that is capable of reaching bipartisan support, we would like to see that alternative. The one thing we know for sure is that the benefits are due under current law, and our ability to pay the benefits will only be enhanced by setting these assets aside, and it will be made worse if we spend or have tax cuts that deplete these resources for other purposes. So regardless of what happens on a year-to-year basis, we know that this is the best possible way to prepare for the future.

Q It doesn't do anything, though, to extend the cash flow surplus, right, on either the Medicare proposal or the Social Security proposal?

MR. LEW: No, absolutely it does. Right now, it extends from 2032 to 2055.

Q Cash flow -- not the trust fund balance, but the payroll tax benefit in 2012 --

MR. LEW: That's true. The current year-to-year receipts versus outlays would not change by this proposal.

Q And the same thing with Medicare, correct?

MR. LEW: That's correct.

Q Can I ask a question about the spending caps? Obviously, the future programs, as you say, are contingent on a Social Security fix. But looking at the budget you propose, you're basically looking at about $200 billion of spending over the caps between now and 2004, $75 billion through fee increases and $137 billion through allocating the surplus. Is that basically a statement that says you cannot really live with the spending caps in the 1997 balanced budget agreement?

MR. LEW: I think what the President made very clear in the State of the Union and he reiterated again today that as we have this debate over what to do with the surplus, one of the things that we need to do is make more resources available for defense and other urgent discretionary priorities.

The 2000 plan that we've put forward is consistent with the caps and consistent with all the current budget laws. It would be difficult, no doubt, as it has been over the past several years. The reason we balanced the budget is we made some very tough choices. Before we make commitments to other spending or tax cuts, we and the President, in the form of the framework that he laid out made clear that there is a need for more discretionary resources.

You're asking the question, could we live with the caps? I think the 2000 budget proves that we are living with the caps. We've proposed that we fix Social Security and then also create more room for important spending in these areas. I think there's a bipartisan consensus of a need for more resources for defense. I think there's a bipartisan consensus that there's a need for more resources for education. The challenge is to fix Social Security before the rest of the pie starts getting cut up.

Q This is for the Secretary. After $21.3 billion for foreign affairs, how much would you expect to be using for the -- to stabilize the international economy, and of that, how much -- if the Brazilian economy continues to fall, how much would you expect to use to continue helping Brazil, and at what level do you expect the real to stabilize?

SECRETARY RUBIN: Larry, exactly what level is the real going to stabilize? I was thinking of the same thing. Well, no.

DEPUTY SECRETARY SUMMERS: I wouldn't advise trading based on my answer. (Laughter.)

SECRETARY RUBIN: I agree with that. No, look, Brazil, is obviously very important. Activities in Brazil are being centered around the IMF. The IMF received its funding last year, as you know, and whatever happens in Brazil, obviously Brazilian policy being the most important thing, will not involve the federal budget.

Q Secretary Rubin, I believe you stated the administration's position on across-the-board tax cuts. Is the administration open to revisiting other forms of targeted tax cuts, such as eliminating marriage penalty, estate taxes --

SECRETARY RUBIN: Yes, we have always felt that eliminating the marriage penalty is a very seriously important objective. The problem is it's very expensive. And as I recollect, we said last year, within our limited constraints we have made the choices we've made, but that's something we'd very much like to work with Congress on. The AMT, very similarly; there's a problem developing, at least in the little bit of time ahead, with respect to AMT in that it starts to affect families, middle-income families. That's another issue that we feel very strongly we want to work with Congress on, though, as you'll notice, we do have an initial AMT proposal in this budget.

Q Secretary Rubin, what would be the income ceiling to the USA accounts?

SECRETARY RUBIN: On USA accounts, what the President did was to set out a framework, and we are working right now in our administration with respect to the specifics through the NEC and Treasury tax people, OMB and all the rest -- working together to develop the specifics, and then we'll be working with Congress. But we are not prepared yet to announce specifics.

Q But can you give us any clue as to whether there would be any consideration taken for states like your home state, which always get hurt when there's an across-the-board income ceiling?

SECRETARY RUBIN: Well, there would be -- the savings accounts will be uniform across the country. They will be designed so as to particularly benefit people in lower and middle-income brackets, because these are the people that find it most difficult to save, and the place where, if you provide matching tax incentives, you can most effectively increase your tax rate.

Q How will you be treating it as a tax cut?

SECRETARY RUBIN: In order to provide this as a tax cut, it would be a tax credit that is rebatable. Is that your question?

Q Yes.

Q Mr. Secretary, a few weeks ago we were being told by economists that, because of the Asian and Brazilian crises, American consumers would have to be the consumers of last resort, you know, buy sneakers from Asia to help them out of their problems. Is that true? And if so, is there enough money in your budget for Americans to continue to consume?

SECRETARY RUBIN: No, I think what we said was that we have done our share -- very much done our share in terms of absorbing exports from these countries as they work their way back -- but we cannot be the consumers of last resort. And it is very important that Europe and Japan both stimulate the domestic demand-led growth and open their markets.

They have both -- in the case of Europe, if I recollect correctly, a large, rather stable trade surplus, and Japan an increased -- or also a large and, I think, still increasing trade surplus, or at the very least stable -- I think it's increasing. And what we said was that we cannot be the consumers of last resort, and these other areas have to both promote and effectively stimulate effective domestic demand-led -- effectively domestic demand-led growth, and then open their markets so that they, too, can do their share.

Q Mr. Secretary, what is the total number of revenue raisers in the budget? And what part of that is the cigarette tax, and what part is the corporate loophole?

SECRETARY RUBIN: Well, there's two different things. The revenue raisers are approximately $34 billion, and that fully pays for the targeted tax cuts. That's one set. The tobacco excise tax is a different matter, and we start there, not with the tax, as you just suggested, but rather with the cost to the federal government that derive from smoking. And then what we did was to conclude that that seemed to us should be paid for by an excise tax on tobacco. And that's where the tobacco tax comes from.

Q How much is that?

SECRETARY RUBIN: My recollection, but correct me if I'm wrong, it was $34 billion over -- what was it over five? Jack will get us the exact number. I don't remember the exact number. I think, Jack, it was -- well, let's see if I'm right or wrong; $34 over five, no?

MR. LEW: $34.5.

SECRETARY RUBIN: $34.5 over five.

Q It would all go to --

SECRETARY RUBIN: It would all go to offset the cost to the federal government that derived from smoking.

Q So where is that in the budget?

SECRETARY RUBIN: What page?

Q No, I mean is that somewhere in the HHS budget, is that somewhere in -- where would we see the $34.5 billion?

SECRETARY RUBIN: There is a table there someplace which shows that as an offset to the precisely -- in fact, there is a whole table on that which shows that as an offset to the expenditures that the smoking has created.

Q So that's not counted as new receipts, that's counted as an offsetting --

SECRETARY RUBIN: It was an offset to the cost that had been created for the federal government. Jack can explain that.

MR. LEW: If you look at page 378 in the budget you'll see it laid out. There are many different ways of looking at what the cost to the federal government of tobacco-related illnesses. What we've done is we've looked at the discretionary cost to the government that it related to tobacco illness. It's mostly in veterans programs, federal employee health, DOD health and Indian health. In 2000 alone, that's $8 billion. Over the next five years it exceeds the $34.5 billion that the 55 cent excise tax would bring in.

And we think that this is comparable to the case made, I think quite effectively and correctly, by the states that the states should be reimbursed for the cost associated with tobacco illness that are borne by state government. This is a statement that rather than have the American taxpayers foot the bill it should be paid ultimately by the tobacco companies, which is where the burden of an excise tax ultimately falls.

Q -- there is no changes in Social Security or Medicare, at what point under current assumptions would the budget, if indeed it would, go back into a deficit? In other words, if no changes are made in Medicare -- we have a current program, we keep it for more than 15 years, Social Security doesn't change -- does the budget go back into the red and when?

MR. LEW: Well, if you were to leave the baseline forecasts that assume no spending, no tax cuts, you have surpluses that go on for a very, very long period of time. I don't remember the year it crosses, but it's many decades out. The risk is that the temptation is to spend the money or to give it as a tax cut. What we proposed is that the money be set aside so that it goes into the Social Security trust fund, it goes into the Medicare trust fund, to pay the obligations we already owe out of those trust funds.

The risk of the debt reduction option is it's awfully tempting not to stick with it. We think by putting the money into the Social Security and Medicare trust funds it makes it much more difficult to then take the money out and use it for anything else.

Q Did you net out the saving to the government of earlier deaths from smoking, and if not, why not?

MR. LEW: That's actually something that afterward I might ask you to follow up with some of our technical people. That's a question I've never been asked before, about earlier deaths. The question that we looked at in putting this years budget together was really very much like the question we asked last year.

Last year we had a phase-in of an excise tax of $1.10, and it was designed to deal with the very terrible problem we have that 3,000 kids a day start smoking. And the analysis last year led us to believe that a tax that phased in -- an excise tax phasing in at $1.10 would cut that in half and very, very substantially reduce the tobacco-related illness in the future.

We had to take into account this year that the state settlement was in place, and it was roughly comparable to half of what we did last year. So what we did was, we left in place half of last year's excise tax, which corresponds, as Secretary Rubin said and as I was saying a moment before, to reimbursing the federal government for a large share of the health care costs associated with tobacco illness.

Q If the point is to make it a deterrent to teen smoking, why go through the exercises of adding up some numbers that -- say $34 billion? If you don't do the offsets, you're not saying that folks are dying at 60 or 62 and they have no Social Security --

MR. LEW: The way to reduce teen smoking is to raise the cost of smoking. And by raising the cost of smoking, we are very hopeful that the number of kids who start smoking will be cut in half. That's the goal.

Q -- money you recoup from states in directed settlements, how are you counting that? Is that a revenue --

MR. LEW: What we've said is that we want to work with the Congress to try and work out legislation that would address this question. In the year 2000, we have not put anything in our budget in terms of allocating the resources that are related to the recoupment issue. What we've said for 2001 and beyond is that our goal is to work on having a list of federal-state agreed-upon priorities, where states will pick up the burden and relieve some of the federal burden. We've not allocated it in the budget; it's just a general allowance in the budget. It could be any number of different programs. The question is to agree upon a set of programs that would reduce the burden on the federal budget, and it could be tobacco-related programs, it could be other programs. And we've just put it in as a way to begin that dialogue.

Q You've given us 15-year provision for the President's budget and for priorities and allocations of the surpluses. If you were to give us a second 15-year period, from 2015 to 2030, when you really have the full impact of the baby boomers' retirement, aren't you then going to be, in effect, in a position where you might well easily slip into deficit budgets to meet the obligations you're making? And I imagine your argument will be that the public debt would be at such a low level that you could more easily manage these deficits. Is that the second 15-year outlook? (Laughter.)

DEPUTY SECRETARY SUMMERS: You got it exactly right. The appeal of this strategy of using Social Security as a lockbox is that it scales dramatically down the burden of the debt on the public in terms of investment, and on the federal budget in terms of interest. Already, by 2015, interest as a share of the federal budget would be down to 2 percent, and it would be declining. That makes room and provides the capacity to meet in a much more satisfactory way the other obligations.

The other virtue of using Social Security as a lock box, other than that it is a politically robust way of ensuring that we actually do reduce the surpluses, is that it assures that the benefits of those surpluses redown to what I think is most Americans' first priority, which is meeting our obligation to the next generation of seniors under Social Security. So it provides both the means to meet the long-term obligations and the political commitment to meet the long-term obligations.

Q Barring tax increases in that second 50-year period, it is reasonable to assume that we will have a period of fairly manageable deficits rather than surpluses, because you'll have to redeem the obligations to this bulge of baby boomers.

DEPUTY SECRETARY SUMMERS: Gene can, I'm sure, answer this by talking about our unified surplus going out long-term.

MR. SPERLING: What Jack was saying was what the exact year is may depend on different assumptions, but what I wanted to make clear is, up until at least the first few decades of the next century, we are able to redeem all of what is owed to Social Security and still run a surplus on top of it. So what's dramatically changed around from five or six years ago is then people would put bonds in Social Security and in the trust fund, and they would say, how are you possibly going to pay those back? They'd say, you have $600 billion, $700 billion, $800 billion deficits in the future; you have to borrow that much just to make the government run; then you have to borrow more on top to pay back Social Security.

We are now in a situation where, well into 2030, 2040, we can pay back all that is owed Social Security and still run a surplus on top of that.

The important point that I do want to make, and it goes to the question that was asked earlier, is we are not in any way increasing our obligation or our promise to Social Security. There is right now an existing promise to pay Social Security recipients a certain benefit when they retire. In 2035, we simply right now do not have the financing to pay that existing promise. So we're not increasing our obligation, we're not saying you get Social Security benefits plus a toaster and a new calendar. We're saying you have -- there is that promise by the government -- what can we do that's real, that's real economically to help finance that.

By paying down this trillions of dollars of debt, what we're doing is we are lowering the net interest costs to the government; we are, hopefully, increasing the revenues, making it a richer country and a richer government, and putting ourselves in a better situation to pay back. So when someone says, what's the difference between if we took $2 trillion in debt reduction and you took $2 trillion the way we're doing it -- economically, they would have the exact same impact to 2032. They would both create a big deficit reduction -- a debt reduction dividend. So the country would have a debt reduction dividend in 2032, whether you did our plan or pure debt reduction.

So what's the difference? We're saying, since we have an unmet promise to Social Security, let's put Social Security first in line; let's just say meeting that promise between 2032 and 2055 should get the first call on the debt reduction dividend. And that is really what the President is doing.

And what Larry was saying, and Senator Landrieu, who was a former Secretary of -- a Treasurer in Louisiana has also said, too, is that this may also be a more politically viable way to get the debt reduction, because instead of leaving it there every year and trusting every Congress not to spend it, by putting nearly $3 trillion essentially in a debt reduction lockbox where you're committing now the benefits to Medicare and Social Security, you get a win-win -- you're doing something strong for the economy, you're locking in some of those benefits from debt reduction for Medicare and Social Security, and you're making it more likely the debt reduction will actually take place.

Q Is 2035 now the insolvency date for Social Security?

MR. SPERLING: 2032.

Q Gene, which parts of the budget -- whether it's some tax credits or other initiatives -- are you most optimistic will be acceptable to Republicans, are you most optimistic that you get passed this year?

MR. SPERLING: I think the most encouraging thing that we've heard has been the degree that many Republicans have rallied around reserving 62 percent of the surplus for Social Security. What's been disappointing is that many then go off and have a variety of different criticisms, have a variety of different ways for paying for other tax cuts or popular programs. What they're not telling the country is what would they do to make sure that Social Security is solvent; if they don't like the way we're getting to 2055, what would they do in its place and how would they work with us to get to 2075.

And the really deafening silence has been on Medicare. Medicare solvency becomes insolvent in 2008. Certainly, before any of us -- any of us -- talk about putting money to -- whether it's a spending program or a tax cut people will care about -- certainly, in addition to securing Social Security for the future, people have a responsibility to ensure we have enough resources for Medicare.

We'd like to hear any member, Democrat or Republican, talk about what their plan for Medicare and Social Security is before they talk about other priorities that may be popular for the moment, but don't help us deal with our long-term retirement challenge.

Q Thanks very much.

Q Whoop-de-do. (Laughter.)

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SUBJECT: PRESIDENT'S FY 2000 BUDGET
PARTICIPANTS TO INCLUDE:
ROBERT RUBIN, SECRETARY OF THE TREASURY
LARRY SUMMERS, DEPUTY SECRETARY OF THE TREASURY
GENE SPERLING, DIRECTOR, NATIONAL ECONOMIC COUNCIL
JACK LEW, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
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SYLVIA MATHEWS, DEPUTY DIRECTOR-DESIGNATE, OMB
450 OLD EXECUTIVE OFFICE BUILDING
WASHINGTON, D.C.

BODY:

MR. SPERLING: Welcome. This is our seventh budget briefing in the president and vice president's tenure. For six years, President Clinton and Vice President

Gore have had a clear fiscal strategy: On one hand we needed to reduce the public budget deficit so that we would increase savings, lower interest rates and spur private sector investment; at the same time, we needed to increase our targeted investment in education, health care and research to increase the productivity of our people.

This two-tiered -- this two-fold investment strategy has clearly worked for the American people. The Congressional Budget Office projected that the deficit that we would face this year when we came in was $404 billion. Instead, we now project a $79 billion surplus. That is a $483 billion difference in the amount of money available to our private markets, to homeowners, to people starting businesses; that is the amount of money that is now available for savings, for investment because of the turnaround in our fiscal policy.

Indeed, all of the doubling in national savings, from 3.1 to 6.7 percent since President Clinton has taken office, has been a result of the federal deficit reduction. With this lower interest rates, productive investment is at historic levels and has grown double digit for more than six years in a row. At the same time, the president's efforts in doubling key education training initiatives; Head Start -- we now spend $2.5 billion more per year than when we came in; education technology has gone from $23 million to nearly $800 million in this budget; WIC, the Women, Infant and Children program, now serves 1.8 million more people. These are some of the results of a strategy of reducing the deficit, having fiscal discipline, and yet having a focus on investing in the productivity and potential of the American people at the same time.

In the president's State of the Union address, he clearly launched a new national debate on how our country should best allocate surpluses in a period of prosperity. And the president's fundamental message was a clear one: With the budget deficit cured, but a long- term retirement deficit looming, the fiscally and financially responsible way for this nation to deal with this period of surpluses is not to consume them today and turn a blind eye to the retirement challenges of tomorrow, but rather to save and invest them.

At the core of the president's proposal is a debt reduction lockbox for Social Security and Medicare -- a debt reduction lockbox of nearly $3 trillion that will strengthen our economy, increase savings rates, and at the same time improve the solvency of Social Security and Medicare.

The impact of this plan is dramatic, as Jack Lew will go over more. In just six years from now we will have taken the debt to below where it was when Ronald Reagan took office in 1981, essentially wiping out the increase in our publicly-held debt as a percentage of GDP and it will fall to 7.1 percent of GDP by 2014, its lowest level since 1917.

We are ready and willing and, in fact, we think it is essential that we work in a bipartisan effort with the Congress to extend the solvency of Social Security for 75 years and to modernize Medicare and to make sure that it is not only solvent to 2020, but that it has the market incentives and modernization it needs to work in the next century and to free the resources that can help it be a better program that can include prescription drugs.

I do want to make the following point, though, to those who have offered more criticisms than constructive suggestions, which is that the president, as an opening start in the dialogue on our surpluses, put forward a plan that was scored by the independent actuaries of Social Security and Medicare, the same actuaries who have independently scored these through Democratic and Republican administrations for 30 years.

And what these show is that Social Security would be solvent to 2055 and Medicare would be solvent to 2020. This is not good enough. We need to work in a bipartisan way to do more, to get Social Security solvent for at least 75

years and to modernize Medicare and include prescription drugs.
But I do think it would be a worthy challenge of many of the presidents' critics to at least come forward with an opening proposal that shows how they would get Social Security to at least 2055 and Medicare solvent to at least 2020 under their principles, under their suggestions, before any of us come forward with proposals for popular spending or tax cut programs for today. I think it would be reasonable for everyone to show how they are going to meet the test of extending the solvency and strength of Medicare and Social Security first. That's an important test, I think, for anyone who wants to have a fiscally responsible plan for the future in this new national debate of how best to allocate surpluses.

Before I turn over to Janet Yellen, I do want to comment that there are many, many people who have been part of this budget team. The president created a National Economic Council, six years ago, to make sure that we functioned as a team, that we all worked together. And this is the seventh budget that has been put forward with Jack Lew's leadership, the OMB director's leadership, but operating and functioning as a team.
Some of the people I would just like to mention quickly on the OMB staff who have been critical, are Josh Gottbaum (sp), Ed DeSeve, Bob Kyle, Elgie Holstein (sp), Barbara Chile (sp), Dan Mendelson, Michael Deich and Dick Emery.
I'd also like to mention my counterpart at the Domestic Policy Council Bruce Reed and his deputy Elena Kagan, their critical role in the development of the tobacco and education and crime proposals, as well as Sally Katzen and Chuck Marr on my own staff; and finally, two people who have been here right from the very start, Joe Minarik and Alan Kohn (sp). There are many, many others at OMB and Treasury and the White House. But I'd like to mention -- I'd like to just have mentioned them and thanked them for their excellent work.
I am going to be followed by Janet Yellen, our chair of the Council of Economic Advisers, who will talk about the economic assumptions. Secretary Rubin will follow to talk about our tax initiatives, and then Jack Lew will follow with the overall framework of our budget.
Also with me is Sylvia Mathews, who many of you know as the former chief of staff at Treasury and the former deputy chief of staff in the White House. She is now the No. 2 person, deputy director of OMB.
And also, all of you know Larry Summers, who will be available for questions, as well, who is the deputy secretary of Treasury.
With that, I will turn things over to Janet Yellen.
MS. YELLEN: Thank you, Gene.
As Gene indicated, my job is to describe the administration's economic forecast that is contained in the budget that was released today.

Before I do that, let me first say that, for the past six years, this administration has established a strong reputation for using credible, conservative economic forecasts in its budget projections. The administration's economic forecasting team was committed to ensuring that our budget balancing efforts would be based on realistic assumptions about the economy's performance, and not on rosy scenarios.
And I believe that the assumptions in this year's budget are similarly credible and are consistent with the views of a consensus of economic forecasters.
The economy's performance over the past six years has been extraordinary. Our nation is currently enjoying the longest peacetime expansion in American history. Since 1993 almost 18 million new jobs have been created, 2.9 million of them just this past year. Unemployment has been below 5 percent since July of 1997, and inflation stands at its lowest level in three decades. Real wages

have grown more over the course of this expansion than in the 1980s.

Although growth over the last several years has exceeded our expectations, we believe that it would not be wise, for budgetary purposes, to count on the continuation of growth at its recent extraordinary pace. Looking ahead, we expect this economic expansion to continue, with new jobs created and real wages continuing to grow. But we're projecting real GDP growth at a lower 2 percent annual rate over the next three years. At the same time the unemployment rate is projected to edge up slightly. Inflation, as measured by the consumer price index, is projected to increase at a 2.3 percent annual rate next year, which is about the same as the increase in the core CPI -- that's the CPI excluding food and energy -- over the past year.

After 2001, real GDP growth is projected to resume its assumed trend growth rate of 2.4 percent, and the unemployment rate is projected to stabilize at 5.3 percent.

Our economic projections are very similar to those in our mid- session review last May, and the differences stem largely from integrating the better than expected economic performance during the past year. Our projections are also close to those of private forecasters and those of the Congressional Budget Office.

The shift to more moderate growth in 1999 reflects the view that tight labor markets are apt to constrain growth in the near term, while several components of domestic demand may be poised to grow at slower rates. Consumption in particular has been growing faster than income and may be likely to slow to a solid but sustainable pace. But it's important to note that our assumed real growth rates are not the best that this administration believes the economy can achieve. The outcome certainly could be better.

Let me conclude by saying that the U.S. economy remains strong in 1998, despite a serious weakening in the international economy, and the economy's ability to weather these storms is testimony to the soundness of the policies of the past six years and to the underlying strength of the current expansion. At present there is no evidence of domestic imbalances that would threaten the outlook for continued growth.

I'd like to stop there and turn the podium over to Secretary Rubin, who will focus more on the tax side of the budget.

SEC. RUBIN: Thank you, Janet. Let me start with one personal comment, if I may, and then I'll just comment for a moment or two on taxes.

I started, as a number of the people on the podium did -- not at the podium; I'm the only one at the podium! -- a number of people up here did, at the beginning of this administration, during the transition, actually. I don't think any of us could have imagined -- I know I could not have imagined -- that we would go from a period of the very high deficits of the '80s and early '90s to the remarkable period we're in right now with large surpluses, and have already begun reduction of our debt with the projections we have in this budget of continued surpluses and a continued reduction of our debt.

Larry Summers and I were talking about this outside. If Larry had looked at a foreign economy that had accomplished this in this period of time and was looking forward to the enormous debt reduction that is projected in this budget, I think he would look at it and say that is a truly remarkable economic achievement, number one; and number two, that is an economy that really is well positioned to do well economically in the future.

Having said that, let me say a word about the president's tax proposals. The president has proposed $34 billion in targeted tax cuts, all of which are fully paid for. I believe that you have a document there that describes the specific proposals. Let me just focus on two things, if I may.

First, within that $34 billion there's $11.7 billion of new targeted tax initiatives. These include a $1,000 tax credit to help compensate families for the cost of long-term care, either for the taxpayer or for an ailing relative. There is also a $700 tax credit to assist workers with disability. And there is tax relief for a parent who stays at home to take care of a very young child, which is in addition to our child care tax credit that we proposed last year. Secondly, our budget deals with a very important problem that has developed -- the proliferation of corporate tax shelters. Corporate tax shelters are defined as transactions that have, for practical purposes, virtually no pre-tax economic effect or very little pre-tax economic effect, and that are done overwhelmingly for tax purposes, and that don't have particular sanction in the tax code. These kinds of tax shelters violate the intent of Congress, they violate the code, they clearly erode the corporate tax base, and they breed disrespect for the tax law.

We have two sets of proposals. One is generic -- that is to say, proposals that are designed to deter this activity in general -- and then, secondly, we take a number of known specific tax -- corporate tax shelters and we act against those. We're going to continue to focus on this at the Treasury Department, and we look forward to working with Congress and their staffs to attack and deal with this very important problem.

The tax proposals as I've just described them are a very important part of the president's budget, and I believe it is a budget that is extremely well put-together with respect to meeting the economic and social challenges that lie ahead for this country.

With that, let me introduce OMB Director Jack Lew.

MR. LEW: Thank you.

I thought I would walk through the structure of the budget, which -- we will have some pictures here to perhaps help explain it.

The president sent a budget to Congress today which is the third consecutive budget that will be in a surplus. This is an accomplishment which I think is underscored by the fact that it's the first time in a half a century that anyone could stand up here and say that. What this budget does is charts a way into the next century for long-term fiscal discipline and investment in our priorities.

We have an enormous opportunity with the new surplus.

(To staff.) Why don't you turn that chart around?

We're going to show you a picture that I think you're all familiar with, which we've been using for the last several years. There used to be a lot more red on it. What we've done is worth taking a moment to remark on. We've eliminated $3.1 trillion of deficits since 1980. And the green that you see there were projected deficits, where, when we started, we were looking at $5-1/2 trillion of deficits from 1993 through 2004. We're now looking at a trillion dollars of surpluses. This is an accomplishment that also puts a responsibility on us to make the decisions that will keep this kind of economic record going forward in the future.

Fiscal discipline has helped bring about the longest peacetime expansion in many decades. The economy has created 17.7 million new jobs. I think Gene and Secretary Rubin have gone through the many economic statistics that underscore how important the budget is to long-term economic prosperity.

In terms of the tax burden on American families, I think we have to begin by noting that the typical family of four has seen its tax burden go down, not up. If you look at the median family, a family with about $45,000 a year, they're paying lower income and payroll taxes than at any time in 23 years. A family at half the median level is actually receiving money back because of the changes in the Earned Income Tax Credit and the Child Care Credit.

Even a family at twice that level is paying the lowest taxes as a share of income than at any point since 1977.

We balanced the budget, and we are running a surplus, because we have controlled federal spending. The budget in the year 2000 will continue the trend that we have followed for the last six years; it will reduce the size of the government as a percentage of the economy year after year after year. This year it will be lower than it was last year, as each budget has been lower than the year before it, and lower than in either of the two previous administrations.

A key element in the administration's ability to expand investments, while reducing the size of government, has been the reinvention of government. We have reduced the size of the federal civilian work force by more than 345,000. We have the smallest federal work force since 1931. We are doing more with less, and we are getting more for the tax dollars the American people send.

Gene has gone through the numbers about what the deficits were projected to be. And at the risk of repetition, I am going to just underscore them because they really need to be understood. The numbers are too large to say just once.

In 1993 we were projecting deficits of $390 billion a year for 1998, 5 percent of the economy. Instead we ran a surplus. By 2003 the projections were for over $600 billion a year, in one year alone; it's that sea of green ink at the bottom. By taking tough action in 1993 and finishing the job in 1997, we have now created the opportunity to chart a path of how we budget with surpluses for the next generation.

This morning the president used this chart, which I think summarizes the story of this budget better than all the others. When the president took office six years ago and we were looking at the seas of deficits, the debt, the total amount that the government has borrowed from the public, was doubling from 25 to 50 percent as a share of GDP, from 1980 to 1992. The framework that the president set forward will reduce the total size of the government debt to 7 percent, the lowest level since the United States entered World War I.

The framework for Social Security reform and long-term -- it's the other chart, Ted -- fiscal discipline that the president laid out, accomplishes this by devoting the lion's share to savings and to setting aside resources for the future, the 62 percent dedicated to Social Security, the 15 percent dedicated to Medicare. What that's saying is we're going to set this money aside, we're going to put it in the Social Security trust fund, we're not going to spend it today, so that we can have it tomorrow to pay the benefits that are already due.

The two pieces of the president's plan that actually do commit resources are the universal savings accounts, which are a tax incentive for savings to increase the retirement savings that Americans have in the future and an investment in military readiness and other critical investments. We think it's a prudent, balanced package. But it's that green area which is the savings that contributes to the reduction in debt held by the public. The pieces that's in equities doesn't technically reduce the debt held by the public, but it does set aside an asset, corporate equities, that will be held by the trust fund, so it does increase savings.

(To staff.) Want to go to the next chart?

There have been a lot of questions about the accounting behind the president's budget, and I think that we need to underscore a very, very basic point. Every dollar that's in the unified budget surplus can only be spent once. It's either going to go to a tax cut or a spending increase, to debt reduction or, to what the president's proposed, which is both debt reduction and setting aside assets for Social Security and Medicare.

Tax cut or spending have the same effect: they create future obligations, they add to the public debt, and they don't put another penny into the Social Security trust fund. I think we've agreed with the economic view that debt

reduction has many virtues, with or without the Social Security investment. It reduces the public debt without adding any new obligations, but it, too, doesn't set a penny aside for the Social Security or Medicare trust funds.
What the president has proposed is to put the money into the trust funds, to reduce the public debt, to not take on any new obligations and to increase the assets that are there for Social Security and Medicare in the future.
We've been struggling to try and boil down to a fairly simple statement why this all works, and I think this picture tells the story, and the president referred to it earlier this morning. When we, in 1993, were projecting interest as a share of the budget for the year 2014, the last year of the 15-year period that we're now looking at, we were projecting that interest would be 27 percent of the federal budget; 27 cents out of every dollar was going to go to interest. Under the president's proposal, only 2 cents out of every dollar will be going to interest, and that means that the rest of that money is available and it's available to be paid to the Social Security trust fund to pay benefits that are already due. To put this in dollar terms, the projection in 1993 would have had interest costs in 2014 at $1.3 trillion in one year alone -- just interest on the national debt. What we're projecting now is 60 billion. That is a tremendous reduction; it's a reduction that means that federal budgets in the future will not be constrained and we won't see productive, useful dedication of resources squeezed out by interest costs that are out of control.

The president proposes a legacy of building for the future by saving Social Security and Medicare, encouraging Americans to save for their own futures, future retirement, and by setting aside resources for critical investments in national defense and other priorities, including education and the other things we've talked to you about for the last several weeks.
Everything that the president is proposing in his year 2000 budget is paid for. That 11 percent is only triggered in 2001, after we finish Social Security reform. This year's budget picks up where last year's budget left off. Last year the president said save the surplus until we fix Social Security first. This year the president has laid out a framework for fixing Social Security, and then proceeding to meet the other challenges that face us as a nation.
That is an overview of the budget. Rather than go into all of the facts and figures, I think we at this point would like to turn it to you to ask questions, and all of us are available to answer questions.
Q Is the 62 percent that you allocate of the surplus for Social Security what Social Security surpluses would amount to anyway? Is it less or more?
MR. LEW: The Social Security trust fund will continue to keep every penny that's put into it over the course of the next 15 years. We're putting these resources in addition, which will take the trust fund's -- the increase in the trust fund up to a total of $5.5 trillion; it would have been $2.7 trillion and it will be $5.5 trillion, plus about $1 trillion to $2 trillion that would have been there anyway. So we're very substantially increasing the assets in the Social Security trust fund.
Q So you're adding quite a bit of general funds, surpluses, to the Social Security --
MR. LEW: All of the obligations to the trust fund are in the form of Treasury specials, except for the portion in equities. When those are redeemed, those would be redeemed with general revenue, as are all obligations to the trust fund.
Q Of the $117 billion projected surplus, how much of that comes from FICA taxes collection?

MR. LEW: Well, in the current fiscal year that we're about to begin work on, fiscal 2000, the on budget is in very small deficit, the off budget, which is the area where FICA taxes are, are in substantial surplus. So in the first year, the answer is all. As you proceed through the next 15 years, that ratio shifts. The important thing, and what we all have to remember, is that when we get to the year 2012, the payments will start to reverse. The bonds that are in the Social Security trust fund will start to be redeemed, and the important question will be, is there enough of a unified budget surplus, enough of a non-Social Security surplus, to pay those bills.

In 1993, when we came in, there were forecasts of $600 billion deficits, and people got scared. How would those bills be paid? By reversing that, and by running a surplus for all of this period, we know that the bills can be paid.
Q Well, I'm not very sophisticated, I guess. All would --
MR. LEW: For the year 2000. But not over the next 15 years.
Q Please help me out and understand how you can put money into a Social Security fund that in effect comes from the Social Security fund. I understand there's something called the two bond process, but it's not double dipping.
MR. LEW: There is no double dipping. The simple explanation --
Q Help me on that.
MR. LEW: The simple explanation is, since 1983, the Social Security trust funds have been accumulating assets. That was the plan in 1983 to save Social Security. Those assets are in the form of Treasury bonds.
Q Right. I understand.
MR. LEW: That Treasury bond is sitting there as debt that the United States government owes; full faith and credit. In the history of the United States, all bonds issued by the United States have been paid. And I would defer to the secretary to make predictions for the future. They'll have to be redeemed. The question then is what do you do with the unified surplus? We've been running a substantial deficit until the last two years. Now we're running a surplus. The unified surplus, once it is the unified surplus, what you do with a dollar it doesn't really matter where it came from. If you put that dollar in a tax cut, then you're going to be decreasing our fiscal position -- ability in the future to pay our bills. If you save it, the way the president has proposed, we're increasing our ability to pay our bills in the future.
Q You're not putting it into Social Security? I mean, it's these phrases --
MR. LEW: Well, you trace the dollar -- the Social Security trust fund keeps the dollar it has, okay? Then there's a Treasury bond that is in the Social Security trust fund. The question is what do you do when the federal government has that dollar in the unified surplus?
Q Having given the bond?
MR. LEW: Having given the bond. You have three choices. You can give the tax cut or the spending cut, which would mean the money goes out. You could save it. And we're saying we should save it. By putting another bond in the Social Security trust fund which is a first call in the future on general revenues to pay that bond. And we'll be able to meet that obligation, provided we keep to a responsible fiscal policy.
Q (Off mike) -- the second bond.
MR. LEW: Correct. We already have the obligation for the benefits. The benefits are all under presently due.
Q How is that a better approach to debt reduction than accelerating the retirement of the debt, so you actually reduce the gross debt?
MR. LEW: Well, I think economists, when they look at the burden of the federal government on the economy, look at the debt held by the public. That's the measure -- and I would defer to the economists on the panel to perhaps do a little bit more on that -- but that's the measure that economists look at.

But there really is a more general problem, which is that the use of corporate tax shelters is proliferating. We can't -- the Treasury Department can't anticipate all the practices that might take place. So what we have done in addition is to propose a set of what I call generic sanctions for engaging in corporate tax shelter activity as a way of trying to deter that activity more generally. I think that's a very, very important initiative, and I know that there is support on both sides of the aisle in Congress for pursuing this.

Q Jack, what is your plan for Social Security if there is a recession, and I assume those things still could happen, and these surpluses do not materialize?

MR. LEW: As Janet Yellen described, our economic forecasts are conservative, they continue to be conservative, as they've always been in the past six years. In addition to looking at the middle range, not taking the most optimistic possible forecast for budget purposes, we have to remember that all of this savings is likely to have a beneficial effect on the economy. We have not taken account of any of that either.

It always the case that on a year-to-year basis, estimates are estimates. And we don't have absolute knowledge going forward of what will happen in a given year. What we do know is that if we reduce the debt, if we do follow the course of long-term fiscal discipline that we've outlined, that over the next 15 years, this obligation -- this is a responsible way to use the surplus. In a given year, there may be ups and downs in terms of what the bottom line is for the unified budget. But over time, it ought not to be a problem.

Q But aren't you -- just to follow up -- I mean, by devoting -- by solving so much of the problem with the surplus, aren't you potential delaying tough choices down the road? I mean, after all, we haven't had a recession in eight years. I seems unlikely just on the face of it that there'll be another eight years without a recession.

MR. LEW: I want to just go over something that Gene said at the beginning. First of all, the president has not said that this should be the end of the discussion. This is the beginning of the discussion. Extending the trust fund to 2055 is not our entire goal. We would like to engage in a bipartisan discussion to get the rest of the way to 75 years. If there's an alternative to get to 2055 that is capable of reaching bipartisan support, we would like to see that alternative. The one thing we know for sure is that the benefits are due under current law, and our ability to pay the benefits will only be enhanced by setting these assets aside, and it will be made worse if we spend or have tax cuts that deplete these resources for other purposes.

So regardless of what happens on a year-to-year basis, we know that this is the best possible way to prepare for the future.

Q Can I ask a question about the --

(Cross talk.)

Q (Inaudible) -- doesn't do anything though to extend the cash flow surplus, right, on either the Medicare proposal or the Social Security proposal?

MR. LEW: No, absolutely it does. Right now, it extends from, you know, from 2032 to 2055.

Q (Off mike) -- cash flow, not the trust fund balance, but the payroll tax, the benefit in 2012 --

MR. LEW: No, the current -- that's true. The current year-to- year receipts versus outlays would not change by this proposal.

Q And the same thing with Medicare; correct?

MR. LEW: That is correct.

Q Can I ask a question about the spending caps? Obviously the future programs, as you say, are contingent on a Social Security fix. But looking at the budget you propose, you're basically looking at about $200 billion of spending over the caps between now and 2004; $75 billion through fee increases and $137 billion through allocating the surplus. Is that basically a statement that says you cannot really live with the spending caps in the 1997 balanced budget agreement?

MR. LEW: Well, I think what the president made very clear in the State of the Union, and he reiterated again today, that as we have this debate over what to do with the surplus, one of the things that we need to do is make more resources available for defense and other urgent discretionary priorities. The 2000 plan that we've put forward is consistent with the caps and consistent with all the current budget laws. It would be difficult, no doubt, as it has been over the past several years. The reason we balanced the budget is we made some very tough choices.

Before we make commitments to other spending or tax cuts, we and the president, in the form of the framework that he laid out, made clear that there is a need for more discretionary resources.

You're asking a question: Could we live with the caps? Well, I think the 2000 budget proves that we are living with the caps. We propose that we fix Social Security and then also create more room for important spending in these areas.

I think there's a bipartisan consensus of a need for more resources for defense.

I think there's a bipartisan consensus that there's a need for more resources for education. The challenge is to fix Social Security before the rest of the pie starts getting cut up.

Q For the secretary, of the $21.3 billion for foreign affairs, how much would you expect to be using to stabilize the national economy, and of that, how much, if the Brazilian economy continues to fall, how much would you expect to be used to help -- to continue helping Brazil, and at what level do you expect the Real to stabilize? (Laughter.)

SEC. RUBIN: Larry, exactly at what level is the Real going to stabilize? (Laughs.)

MR. SUMMERS: (Off mike.)

SEC. RUBIN: (Laughing) -- your broker, Sam? I was thinking the same thing. Well, no -- (laughs) --

MR. SUMMERS: I wouldn't advise trading based on my answer!

SEC. RUBIN: I agree with that! (Laughs.)

No, look, any -- Brazil obviously is very -- let me -- Brazil obviously is very important. Activities in Brazil are being centered around the IMF. The IMF received its funding last year, as you know. And whatever happens in Brazil, with obviously Brazilian policy being the most important thing, will not involve the federal budget.

Q Secretary Rubin, earlier you stated the administration's position on across-the-board tax cuts.

Is the administration open to revisiting other forms of targeted tax cuts, such as eliminating the marriage penalty, estate taxes, AMT adjustment?

SEC. RUBIN: Yeah, we have always felt that eliminating the marriage penalty is a very seriously important objective. The problem is it's very expensive and it's, as I recollect we said last year, within our limited constraints we have made the choices we've made. That's something we'd very much like to work with Congress on. The AMT, very similarly, there's a problem developing, at least in the little bit of time ahead, with respect to AMT in that it starts to affect families with -- middle-income families. That's another issue that we feel very strongly we want to work with Congress on, though as you'll notice, we do have an initial AMT proposal in this budget.

Q Secretary Rubin, what would be income ceiling to the the USA accounts?

SEC. RUBIN: On the USA accounts, what the president did was to set out a framework and we are working right now in our administration with respect to the specifics through the NEC and Treasury staffing and -- Treasury tax people -- OMB and all the rest, working together to develop the specifics, and then we'll be working with Congress. But we are not prepared yet to announce specifics.
Q Can you just give any clue as to whether there would be any consideration taken with states like your home state, which always get hurt when there's an across-the-board income ceiling?
SEC. RUBIN: Well, there'd be a -- the savings accounts would be uniform across the country. They will be designed so as to particularly benefit people in lower and middle income brackets, because these are the people that find it most difficult to save, and the place where, if you provide matching tax incentives, you can most effectively increase your tax rate.
Q How would they be treated as a tax cut?
SEC. RUBIN: In order to provide this as a tax cut, it would be a tax credit that is rebatable. Is that your question?
Q Yeah.
Q Mr. Secretary, a few weeks ago we were being told by economists that because of the Asian and Brazilian crisis, American consumers would have to be the consumers of last resort, you know, to buy sneakers from Asia to help them out of their problem. Is that true, and if so, is there enough money in your budget for Americans to continue to consume?
SEC. RUBIN: No, I think what we said was that we have done our share, very much done our share in terms of absorbing exports from these countries as they work their way back, but we cannot be the consumers of last resort and it is very important that Europe and Japan both stimulate domestic demand-led growth and open their markets. They have both -- in the case of Europe, have, if I recollect correctly, a large and rather stable trade surplus and Japan an increase -- or, also a large and, I think, still increasing trade surplus, or at the very least stable. I think it's increasing. And what we said was that we cannot be the consumers of last resort and these other areas have to both promote and effectively stimulate effective domestic demand-led growth and open their markets so they too can do their share.

Q Mr. Secretary, what is the total number of revenue raisers in the budget? And what part of that is the cigarette tax and what part is the corporate --
SEC. RUBIN: Well, there's two different things. The revenue raisers are approximately $34 billion, and that fully pays for the targeted tax cuts. That's one set of it.
The tobacco excise tax is a different matter, and we start there not with the tax, as you just suggested but, rather, with the costs to the federal government that derive from smoking. And then what we did was to conclude that that, it seemed to us, should be paid for by an excise tax on tobacco, and that's where the tobacco tax comes from.
Q How much is that?
SEC. RUBIN: My recollection -- but correct me if I'm wrong -- it was $34 billion over --
MR. LEW (?): It's $8 billion in 2000.
SEC. RUBIN: What was it over five? I've got it there, I guess.
Jack will get the exact number. I don't remember the exact number. I think, Jack, it was -- well, let's see if I'm right or wrong. I thought it was 34 (billion dollars) over five (years).
MR. LEW: Thirty-four-point-five.
SEC. RUBIN: Thirty-four-point-five (billion dollars) over five (years).
Q So that's in addition to the --

Q And would it all go to health?
SEC. RUBIN: Yes. It would all go to offset the costs to the federal government that derive from smoking.
Q So where is that in the budget? Where is -- is that --
SEC. RUBIN: What page? (Laughter.)
Q No, I mean, is that somewhere in the HHS budget or is that somewhere in -- where would we see the $34.5 billion? SEC. RUBIN: There's a table there someplace which shows that as an offset to the -- precisely -- in fact, there's a whole table on that, which shows that as an offset to the expenditures that the smoking has created.
Q And that's not counted as new receipts, that's counted as an offset?
SEC. RUBIN: It is an offset to the costs that have been created for the federal government.
Jack can explain that.
MR. LEW: No, you go ahead! (Laughter.)
SEC. RUBIN: You created the table, you explain it! (Laughter.)
MR. LEW: If you look at page 378 in the budget, you'll see it laid out. There are many different ways of looking at what the cost to the federal government of tobacco-related illness is. What we've done is we've looked at the discretionary costs to the government that are related to tobacco illness. It's mostly in veterans' programs, federal employee health, DOD health, and Indian health. In 2000 alone, that's $8 billion.

Over the next five years, it exceeds the $34.5 billion that the 55- cent excise tax would bring in. And we think that this is comparable to the case made, I think quite effectively and correctly, by the states that the states should be reimbursed for the costs associated with tobacco illness that are borne by state government. This is a statement that rather than have the American taxpayers foot the bill, it should be paid ultimately by the tobacco companies, which is where the burden of an excise tax ultimately falls.
Q Jack, can you comment on --
Q If there are no changes in the Social Security -- if there are no changes made to Social Security or Medicare, at what point under current assumption would the budget -- if indeed it would go back into a deficit? In other words, if no changes are made in Medicare, we have a current program, we keep it for more than 15 years, Social Security doesn't change, does the budget go back into the red, and when?
MR. LEW: Well, if we -- if you were to leave the baseline forecasts that assume no spending, no tax cuts, you have surpluses that go on for a very, very long period of time. I don't remember the word it crosses, but it's many decades out. The risk is that the temptation is to spend the money or to give it as a tax cut. What we propose is that the money be set aside so that it goes into the Social Security Trust Fund, it goes into the Medicare Trust Fund to pay the obligations we already owe out of those trust funds. The risk of the debt reduction option is it's awfully tempting not to stick with it. We think that by putting the money into the Social Security and Medicare trust funds, it makes it much more difficult to that take the money out and use it for anything else.
(Cross talk.)
STAFF: Only a couple more questions.
Q On tobacco tax, a follow-up on that? Did you net out the savings to the government of earlier deaths from smoking? And if not, why not?
MR. LEW: You know, that's actually something that afterwards I might ask you to follow up with some of our technical people. That's a question I've never been asked before about earlier deaths. The question, you know, that we looked at in putting this year's budget together was really very much like the question we

asked last year. Last year, we had a phase-in of an excise tax of a $1.10, and it was designed to deal with the very terrible problem we had that 3,000 kids a day start smoking. And the analysis last year led us to believe that a tax that phased in, an excise tax phasing in $1.10 would cut that in half, and very, very substantially reduce the tobacco-related illness in the future.
We had to take into account this year that the state settlement was in place, and it was roughly comparable to half of what we did last year. So what we did was we left in place half of last year's excise tax, which corresponds, as Secretary Rubin said and as I was saying a moment before, to reimbursing the federal government for a large share of the healthcare costs associated with tobacco illness.
Q But if the point is to make it a deterrent to teen smoking, why go through the exercise of adding up some numbers that say it's $34 billion, because you don't do the offsets?

You're not saying that folks who are dying at 60 or 62 and they have no Social Security or Medicare payment.
MR. LEW: Well, the way to reduce teen smoking is to raise the cost of smoking, and by raising the cost of smoking, we are very hopeful that the number of kids who start smoking will be cut in half. That's the goal.
Q Can you talk about -- (inaudible) -- you recoup from states and tobacco settlements, how are you counting that? Is that a revenue or --
MR. LEW: What we've said is that we want to work with the Congress to try and work out legislation that would address this question. In the year 2000, we have not put anything in our budget in terms of allocating the resources that are related to the recoupment issue. What we've said for 2001 and beyond is that our goal is to work on having a list of federal-state agreed-upon priorities where states will pick up the burden and relieve some of the federal burden. We've not allocated it in the budget, it's just a general allowance in the budget. It could be any number of different programs. The question is to agree upon a set of programs that would reduce the burden on the federal budget, and it could be tobacco-related programs, it could be other programs. And we've just put it in as a way to begin that dialogue.
Q You've given us a 15-year horizon for the president's budget and priorities and allocation of the surpluses. If you were to give us a second 15-year period, from 2015 to 2030, when you really have the full impact of the baby boomers' retirement, aren't you then going to be in effect in a position where you might very easily slip into deficit budgets to meet the obligations you're making? And I imagine your argument would be that the public debt, though, would be at such a low level that you could more easily manage these deficits. Is that the second 15-year outlook?
(Laughter.)
MR. LEW: Well, first of all, our projection -- (cross talk). I'll defer to Deputy Secretary Summers.
MR. SUMMERS: You got it. You got it exactly right. The appeal of this strategy of using Social Security as a lockbox is that it scales dramatically down the burden of the debt on the public in terms of investment, and on the federal budget in terms of interest. Already, by 2015, interest as a share of the federal budget would be down to 2 percent, and it would be declining. That makes room and provides the capacity to meet in a much more satisfactory way the other obligations.

The other virtue of using Social Security as a lockbox, other than that it is a politically robust way of ensuring that we actually do reduce the surpluses, is that it assures that the benefits of those surpluses redound to what I think is most Americans' first priority, which is meeting our obligation to the next generation of seniors under Social Security. So it provides both the means to meet the long-term obligations and the political commitment to meet the long-term obligations.

Q Barring tax increases in that second (15 ?)-year period, it is reasonable to assume that you will have a period of fairly manageable deficits rather than surpluses, because you'll have to redeem the obligations to this bulge of baby boomers.

MR. SUMMERS: Gene can, I'm sure, answer this by talking about our unified surplus going out long term.

MR. SPERLING: I think what Jack was saying is what the exact year is may be -- depend on different assumptions. But what I wanted to make clear is, up till at least the first few decades of the next century, we are able to redeem all of what is owed to Social Security and still run a surplus on top of it. So what's dramatically changed around from five or six years ago is then people would put bonds in Social Security, in the trust fund, and they would say, "How are you possibly going to pay those back?" They'd say, "You have six, seven, $800 billion deficits in the future. You have to borrow that much just to make the government run. Then you have to borrow more on top to pay back Social Security." We are now in a situation where well into 2030, 2040, we can pay back all that is owed Social Security and still run a surplus on top of that.

The important point that I do want to make, and it goes to the question that was asked earlier, is we are not in any way increasing our obligation or our promise to Social Security. There is right now an existing promise to pay Social Security recipients a certain benefit when they retire. In 2035, we simply right now do not have the financing to pay that existing promise. So we're not increasing our obligation; we're not saying you get Social Security benefits plus a toaster and a new calendar. We're saying there is that promise by the government; what can we do that's real, that's real economically, to help finance that? By paying down this trillions of dollars of debt, what we're doing is we are lowering the net interest costs to the government; we are, hopefully, increasing the revenues, making it a rich country and a richer government, and putting ourselves in a better situation to pay back.

So when someone says, "What's the difference between if we took 2 trillion in debt reduction and you took 2 trillion in the way we're doing it? Economically, they would have the exact same impact to 2032. They would both create a big deficit reduction -- a debt reduction dividend. So the country would have a debt reduction dividend in 2032, whether you did our plan or pure debt reduction." So what's the different? We're saying since we have an unmet promise to Social Security, let's put Social Security first in line. Let's just say meeting that promise between 2032 and 2055 should get the first call on the debt reduction dividend.

And that is really what the president is doing. And what Larry was saying and Senator Landrieu, who is a former secretary of -- a treasurer in Louisiana has also said too is that this may also be a more politically viable way to get the debt reduction, because instead of leaving it there every year and trusting every Congress not to spend it, by putting nearly $3 trillion essentially in a debt reduction lock box where you're committing now the benefits Medicare and Social Security, you get a win-win. You're doing something strong for the economy; you're locking in some of those benefits from debt reduction from Medicare/Social Security, and you're making it more likely that debt reduction will actually take place.

STAFF: Last question.

Q Gene, which parts --

(Cross talk.)

Q Is 2035 now the insolvency date? Is 2035 now the insolvency date for Social Security?
MR. SPERLING: 2032.
Q Gene, which parts of the budget, whether its some tax credits or other initiatives, are you most optimistic will be acceptable to Republicans, are you most optimistic that you can get passed this year?
MR. SPERLING: I think the most --
Q (Off mike.)
MR. SPERLING: -- the most encouraging thing that we've heard has been the degree that many Republicans have rallied around of reserving 62 percent of the surplus for Social Security. What's been disappointing is that many then go off and have a variety of different criticism, have a variety of different ways for paying for other tax cuts or popular programs. What they're not telling the country is what would they do to make sure that Social Security is solvent. If they don't like the way we're getting to 2055, what would they do in it's place, and how would they work with us to get to 2075?

And the really deafening silence has been on Medicare. Medicare solvency -- it becomes insolvent in 2008. Certainly, before any of us -- any of us -- talk about putting money to -- whether it's a spending or a tax cut people care about, certainly, in addition to securing Social Security for the future, people have a responsibility to ensure we have enough resources for Medicare. And we'd like to hear any member, Democrat or Republican, talk about what their plan for Medicare and Social Security is, before they talk about other priorities that may be popular for the moment but don't help us deal with our long-term retirement challenge.
STAFF (?): Thanks very much.
Q Whoop-tee-do! (Laughter.)
(Cross talk.)
END

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